Julius Bär

MEDIA RELEASE

Julius Baer Group Ltd.

Zurich, 31 January 2018

Presentation of the 2017 full-year results[1] for the Julius Baer Group

Record adjusted net profit CHF 806 million – Proposed dividend CHF 1.40 per share, up 17%

- **Adjusted net profit for the Group up 14% to record CHF 806 million. Adjusted earnings per share (EPS) attributable to shareholders of Julius Baer Group Ltd. grew 13% to CHF 3.66.**
- **Year-on-year increase in adjusted net profit 30% when excluding the Kairos- and pension fund-related items in 2016 (CHF 88 million net of taxes).**
- **IFRS net profit attributable to shareholders of Julius Baer Group Ltd. CHF 705 million and IFRS EPS CHF 3.25, both 14% higher.**
- **Assets under management (AuM) CHF 388 billion, up CHF 52 billion, or 16%. AuM impacted by end-of-year reclassification of CHF 6 billion to custody assets, following completed roll-out of the new client advisory models in Switzerland and continental Europe.**
- **Net new money over CHF 22 billion, or 6.6%, exceeding the 4–6% target range, underlining the continuing success of the organic growth initiative.**
- **Gross margin 90 basis points (bps), adjusted cost/income ratio[2] 69%, adjusted pre-tax margin 27 bps.**
- **Fully applied BIS CET1 capital ratio improved from 10.6% to 13.5% (phase-in: 16.7%) and fully applied BIS total capital ratio from 16.4% to 21.2% (phase-in: 22.0%). Capital ratios well above the minimum regulatory requirements and the Group's own floors.**
- **Board of Directors to propose ordinary dividend of CHF 1.40 per share for financial year 2017, representing the fourth consecutive increase and a rise of 17% from 2016. Subject to approval at the Annual General Meeting (AGM) of shareholders on 11 April 2018, the dividend will be paid out of the statutory capital reserve.**
- **Elections to the Board of Directors at the 2018 AGM: Ann Almeida will not stand for re-election; Richard M. Campbell-Breeden nominated for election as a new member of the Board (as announced on 11 December 2017).**

Bernhard Hodler, Chief Executive Officer of Julius Baer Group Ltd., said: "I am proud to present these excellent results for 2017. I want to continue to sharpen the pure-play private banking strategy that sets us apart, and to position Julius Baer as *the* trusted adviser to our clients. We will also invest in further improving our tools and processes to support our relationship managers in providing holistic advice to our clients. Thanks to our unique positioning, we are well placed to take advantage of international expansion and hiring opportunities."

AuM up 16%, supported by significant net inflows and market performance
Assets under management grew by 16%, or CHF 52 billion, to CHF 388 billion. The growth in AuM was the result of market performance of CHF 34 billion, net new money of CHF 22 billion (6.6%), a positive currency impact of CHF 2 billion, as well as a small net positive acquisition impact of CHF 0.3 billion. AuM were impacted by an end-of-year reclassification of CHF 6 billion to custody assets, following the completion of the roll-out of the new client advisory models in Switzerland and continental Europe.

The net new money pace accelerated to 6.6%, exceeding the Group's medium-term target range (4–6%). Net new money was helped particularly by strong net inflows from clients domiciled in Asia and the Middle East, a substantial recovery in Latin America, and continued healthy net new money development in the traditional European markets, including strong contributions from Monaco and the UK. The relationship managers (RMs) hired in 2016 and 2017 contributed significantly to the inflows.

Including assets under custody of CHF 69 billion, total client assets grew by 17% to CHF 457 billion.

Operating income climbed 14%, boosted by strong growth in net commission and fee income
Operating income rose to CHF 3,252 million. The 14% increase was slightly lower than the 16% growth in monthly average AuM (to CHF 363 billion), leading to a decline in the gross margin by 1 bp to 90 bps. In 2016, however, operating income included a positive fair value adjustment of CHF 39 million (or 1.2 bps in gross margin terms) resulting from the acquisition of an additional 60.1% stake in Kairos that year. Excluding this impact, the rise in operating income was 16% and the gross margin was essentially unchanged.

Net commission and fee income grew by 23% to CHF 1,931 million. The significant increase was driven by a further improvement in asset-based fee income as well as by strong growth in client transaction commissions. Asset-based revenues were fuelled by an increased penetration of advisory mandates and a full twelve-month and strongly improved contribution from Kairos, which was consolidated as of 1 April 2016 and saw good performance in its key products.

Net interest and dividend income rose by 13% to CHF 988 million. It included CHF 195 million of dividend income on trading portfolios, up 2%. Excluding this item, underlying net interest and dividend income went up by 16% to CHF 792 million, driven mainly by an increase in loan volumes and higher credit spreads, partly offset by a rise in interest rates payable on client deposits. Interest income on the portfolio of financial investments available-for-sale (AFS) was slightly lower as the benefit from higher US interest rates was more than offset by a 33% reduction in the size of the AFS book.

Net trading income fell by 9% to CHF 304 million. Including the dividend income related to trading portfolios, underlying net trading income decreased by 5% to CHF 499 million. This decline follows a substantial year-on-year decrease in overall FX volatility and volumes.

Other ordinary results (which among other items includes income from associates, rental income and net gains/losses from the disposal of financial investments from the AFS portfolio) fell by CHF 48 million to CHF 30 million. The decline is largely attributable to the aforementioned Kairos item as well as the termination of the brand licensing agreement with GAM in March 2017.

Cost/income ratio[2] improved towards medium-term target range

Adjusted operating expenses increased by 13% to CHF 2,264 million. In 2016, however, operating expenses included a benefit of CHF 63 million resulting from an amendment of the Swiss pension plan. Excluding this impact, the year-on-year increase in operating expenses was 9%.

At 6,292 full-time equivalents (FTEs), personnel rose by 4%, or 266 FTEs – and the monthly average number of employees increased by 6% to 6,206. Following the very significant investments in RM hiring in 2016, the focus in 2017 was shifted towards a more normalised hiring pace and to improving the quality and capacity of client-facing personnel. In 2017, the Group further introduced a new framework for its front-office organisation, with dedicated market and team leadership roles. As a consequence, 28 RMs moved into new positions and are no longer classified as RMs. As a consequence, and in combination with the net result of continued active hiring and ongoing performance-driven resource management, the number of RMs grew by 1%, or 13 FTEs, to 1,396. AuM per RM climbed by 14% to CHF 278 million.

Adjusted *personnel expenses* grew to CHF 1,549 million, a rise of 18%. Excluding the pension fund-related benefit of CHF 63 million in 2016, the increase in adjusted personnel expenses was 12%.

Adjusted *general expenses* went up by 2% to CHF 626 million, as the ongoing investments in the core banking platforms and the costs indirectly caused by higher staff levels were partly offset by a CHF 20 million decline in valuation allowances, provisions and losses.

Adjusted depreciation increased by 12% to CHF 42 million and *adjusted amortisation* by 26% to CHF 46 million. The growth in adjusted amortisation mainly reflects the rise in IT-related investments in recent years.

As a result, the adjusted *cost/income ratio*[2] was 69.0%. This compares to 68.9% in 2016, or 72.0% excluding the Kairos- and pension fund-related items. The underlying year-on-year improvement was partly attributable to the incremental revenue benefits from the RM hiring in 2016 and 2017, as well as the strong revenue contribution from Kairos.

Adjusted net profit for the Group CHF 806 million

Adjusted *profit before taxes* rose by 17% year on year to CHF 989 million. Excluding the Kairos- and pension fund-related items (together CHF 101 million) in 2016, the increase was 32%. The adjusted pre-tax margin was 27.3 bps. The related income taxes were CHF 183 million, representing a tax rate of 18.5%, up from 16.8% in 2016. The increase in the tax rate was largely driven by an increased profit contribution from Italian-based Kairos.

Adjusted net profit for the Group grew by 14% to CHF 806 million. After considering adjusted non-controlling interests of CHF 13 million, adjusted net profit attributable to shareholders of Julius Baer Group Ltd. was CHF 793 million, and adjusted EPS attributable to shareholders of Julius Baer Group Ltd. CHF 3.66, both up 13% year on year.

As in previous years, in the analysis and discussion of the results in the Media Release and the Business Review, adjusted operating expenses exclude integration and restructuring expenses (CHF 30 million, versus CHF 29 million in 2016) as well as the amortisation of intangible assets related to acquisitions (CHF 72 million, versus CHF 66 million in 2016). Including these items, as presented in the IFRS results in the Group's Consolidated Financial Statements 2017, net profit improved by 15% to CHF 716 million. After considering non-controlling interests of CHF 11 million, the IFRS net profit attributable to shareholders of Julius Baer Group Ltd. rose to CHF 705 million and EPS to CHF 3.25, both up 14% year-on-year.

Excluding the Kairos- and pension fund-related items (together CHF 88 million net of taxes) from 2016 operating income and expenses, adjusted net profit for the Group rose by 30% and IFRS net profit attributable to shareholders by 33%.

Balance sheet and capital developments

Total assets increased by CHF 2 billion, or 2%, to CHF 98 billion at the end of 2017. The total loan book grew by CHF 8 billion, or 21%, to CHF 47 billion (comprising CHF 37 billion of Lombard loans and CHF 10 billion of mortgages). As clients invested a higher proportion of AuM into non-cash positions, deposits rose only marginally to CHF 68 billion, resulting in a loan-deposit ratio of 69% (end of 2016: 57%). Following this development, the Group's cash holdings and the AFS portfolio were reduced by 20% and 33%, respectively. Total equity attributable to shareholders of Julius Baer Group Ltd. increased by CHF 0.5 billion, or 9%, to CHF 5.8 billion.

On a Basel III fully applied basis, total capital amounted to CHF 4.2 billion (Basel III phase-in: CHF 4.3 billion), of which CHF 2.6 billion CET1 capital (phase-in: CHF 3.3 billion). With risk-weighted assets declining to CHF 19.6 billion, this resulted in an increase in the fully applied *BIS total capital ratio* from 16.4% to 21.2% (phase-in: 22.0%) and an improvement in the fully applied *BIS CET1 capital ratio* from 10.6% to 13.5% (phase-in: 16.7%). At these levels, the total capital ratio and the CET1 ratio are well above the Group's own floors of 15% and 11%, and significantly in excess of the regulatory minimums of 12.2% and 8%, respectively.

Proposed ordinary dividend of CHF 1.40 per share for 2017, up 17% from 2016

The Board of Directors intends to propose an ordinary dividend of CHF 1.40 per share for the financial year 2017, representing the fourth consecutive increase and a rise of 17% from 2016. Subject to approval at the AGM on 11 April 2018, the dividend will be paid out of the statutory capital reserve. The total proposed distribution amount is CHF 313 million, equivalent to 40% of adjusted net profit attributable to shareholders of Julius Baer Group Ltd. and to 44% of IFRS net profit attributable to shareholders of Julius Baer Group Ltd.

Elections to the Board of Directors

Ann Almeida, member of the Boards of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 1 June 2016 and member of the Compensation and Nomination Committees, has decided for personal reasons not to stand for re-election at the upcoming 2018 AGM. As announced on 11 December 2017, Richard M. Campbell-Breeden was nominated for election as a new member of the Board of Directors of Julius Baer Group Ltd.

Chairman Daniel J. Sauter commented: "On behalf of Julius Baer, I would like to thank Ann Almeida for her valuable contribution as an independent member of our Board of Directors. With Richard Campbell-Breeden, we are proposing a strong new candidate with extensive experience in capital and financial markets and deep knowledge of Asian economies. His background represents an ideal addition to our Board's expertise."

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[1] The adjusted results as presented and commented in this Media Release and in the Business Review are derived by excluding from the reviewed IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to acquisitions or divestments.

[2] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

The results conference will be webcast at 9:30 a.m. (CET). All documents (presentation, Business Review 2017, Consolidated Financial Statements 2017, spreadsheets and this Media Release) are available at www.juliusbaer.com.

Contacts

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Important dates

19 March 2018:	Publication of Annual Report 2017 including Remuneration Report 2017
11 April 2018:	Annual General Meeting 2018, Zurich
13 April 2018:	Ex-dividend date
16 April 2018:	Record date
17 April 2018:	Dividend payment date
23 May 2018:	Publication of four-month Interim Management Statement
23 July 2018:	Publication and presentation of 2018 half-year results, Zurich

About Julius Baer

Julius Baer is the leading Swiss private banking group, with a focus on servicing and advising sophisticated private clients and a premium brand in global wealth management. At the end of 2017, assets under management amounted to CHF 388 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 Market Index (SMI), comprising the 20 largest and most liquid Swiss stocks.

Julius Baer is present in over 25 countries and more than 50 locations. Headquartered in Zurich, we have offices in key locations including Dubai, Frankfurt, Geneva, Hong Kong, London, Luxembourg, Milan, Monaco, Montevideo, Moscow, Mumbai, 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 private banking.

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]

	2017 CHF m	2016 CHF m	Change in %
Consolidated income statement			
Operating income	3,252.2	2,852.4	14.0
Adjusted operating expenses	2,263.6	2,004.8	12.9
Profit before taxes	988.6	847.6	16.6
Adjusted net profit for the Group	805.6	705.5	14.2
Cost/income ratio[2]	69.0%	68.9%	-
Pre-tax margin (basis points)	27.3	27.1	-

	31.12.2017	31.12.2016	Change in %
Assets under management (CHF bn)			
Assets under management	388.4	336.2	15.5
Net new money	22.2	11.9	-
Consolidated balance sheet (CHF m)			
Total assets	97,917.6	96,207.2	1.8
Total equity	5,854.0	5,353.9	9.3
BIS total capital ratio	22.0%	17.5%	-
BIS CET1 capital ratio	16.7%	16.4%	-
Personnel (FTE)			
Number of employees	6,292	6,026	4.4
Number of relationship managers	1,396	1,383	0.9
Capital structure			
Number of shares	223,809,448	223,809,448	-
Market capitalisation (CHF m)	13,339	10,123	31.8
Moody's rating Bank Julius Baer & Co. Ltd.			
Long-term deposit rating	Aa2	Aa2	
Short-term deposit rating	Prime-1	Prime-1	

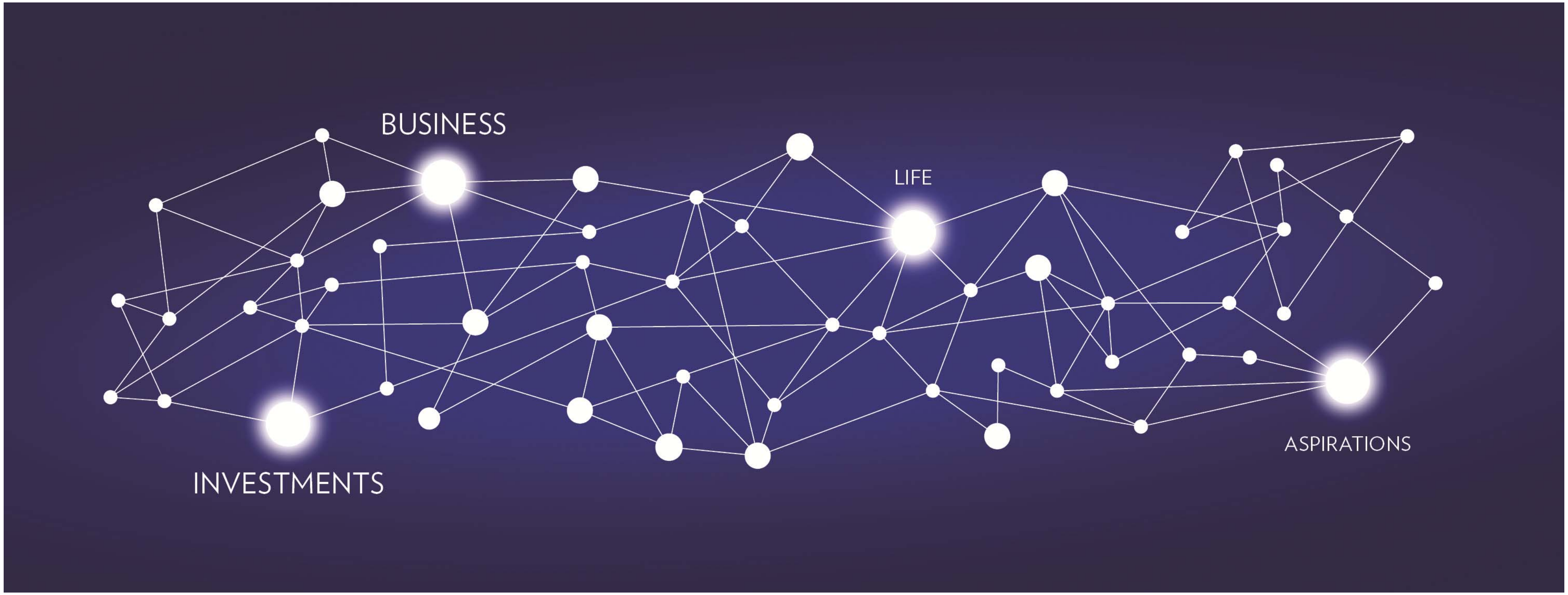
1 Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments. Including these items, the IFRS net profit for 2017 amounted to CHF 716 million (2016 CHF 622 million).

2 Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

Julius Bär

FY 2017 RESULTS AND BUSINESS UPDATE

Presentation for Investors, Analysts & Media
Zurich, 31 January 2018



CONTENT

Introduction

Bernhard Hodler, CEO

A STRONG POSITION TO DRIVE A SHARPENED STRATEGY

Record profit | Acceleration in net inflows | Strong capitalisation | Increased dividend

Record profit

- Adjusted[1] net profit for the Group: up 14% to record CHF 806 million
- Gross margin resilient at 90 bp
- Cost/income ratio[2] at 69% – advancing towards target range

Accelerated net inflows across regions

- Net new money: acceleration to CHF 22 bn or 6.6%
- AuM CHF 388 bn, up 16%

Strong capitalisation, proposed dividend increase

- Fully applied CET1 capital ratio improved to 13.5%
- Proposed dividend up 17% to CHF 1.40, the fourth consecutive increase

[1] For definition of “adjusted” please refer to “Scope of Presentation of Financials” in the Appendix | [2] Adjusted

CONTENT

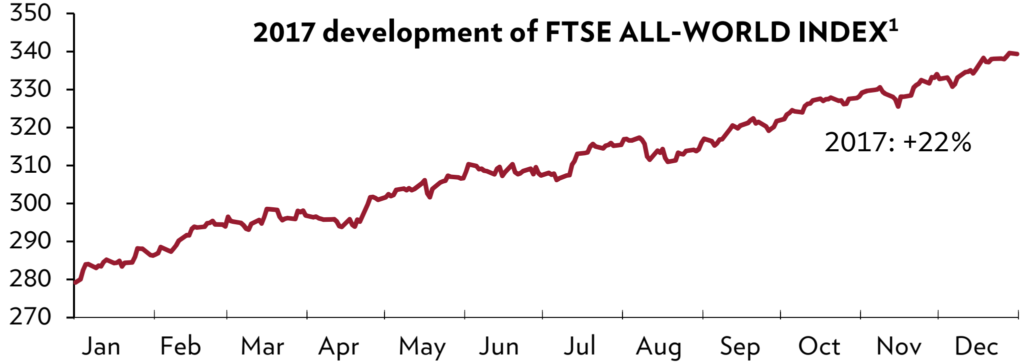
Financial Results FY 2017*

Dieter A. Enkelmann, CFO

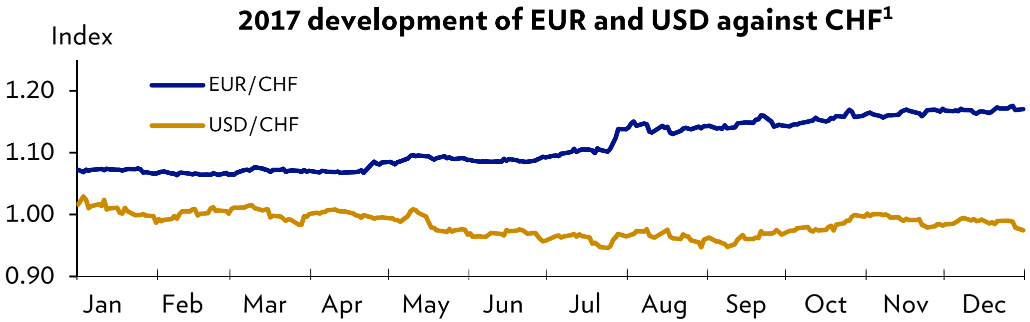
*Financial Results are presented on adjusted basis. See “Scope of Presentation of Financials” in the Appendix

2017: SUPPORTIVE MARKET ENVIRONMENT

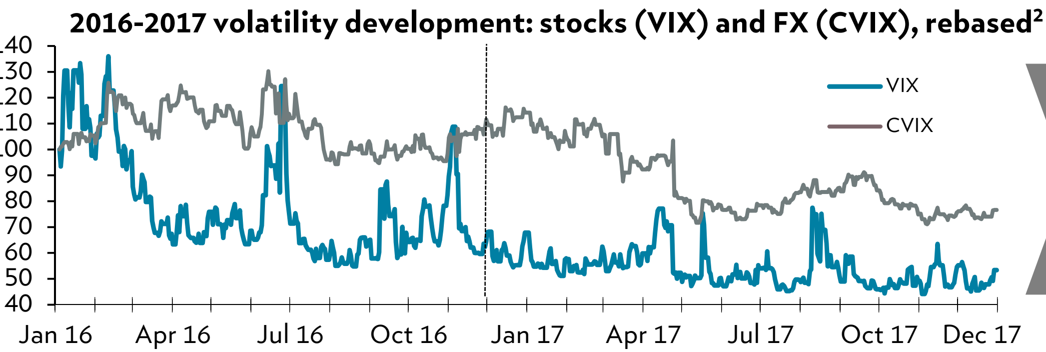
Partly offset by lower FX volatility



- Stock markets benefited from continued positive economic momentum …
- … leading to higher valuations and increased client engagement



- EUR strengthened by 9%
- USD weakened by 4%



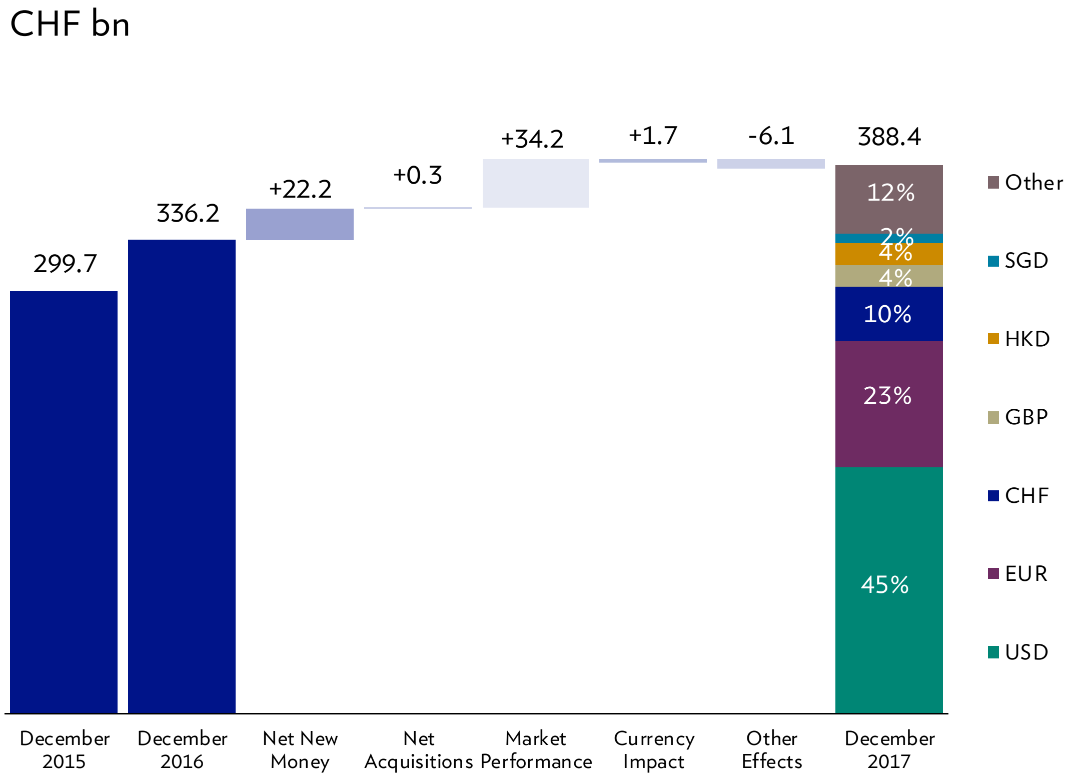
- Lower-volatility environment: Combined with higher valuations a positive for clients' stock market activity …
- … but normally negative for client FX trading (volumes, spreads)

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

AUM INCREASE OF CHF 52bn (+16%) TO CHF 388bn

Driven by organic growth and market performance

Development of Assets under Management (AuM)



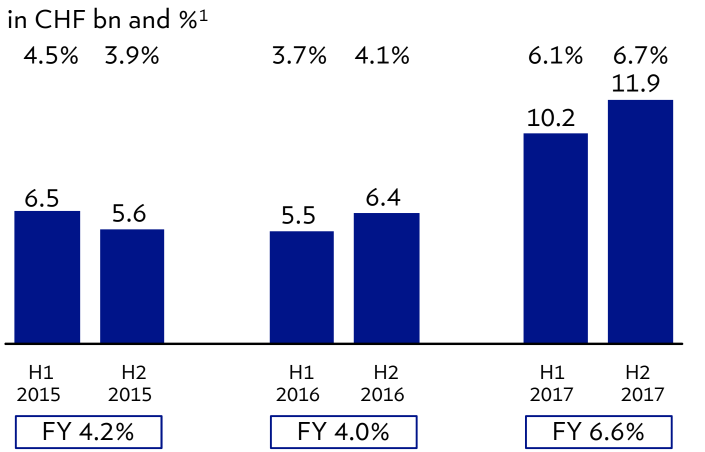
- AuM CHF 388bn, +16%
  - Net new money CHF +22.2bn
  - Net acquisitions[2] CHF +0.3bn
  - Market performance CHF +34.2bn
  - Currency impact CHF +1.7bn
  - Other effects[3] CHF -6.1bn
- *Average* AuM[1] of CHF 363bn, up +16% from CHF 313bn in 2016
- AuC[4] CHF 69bn, +24%

[1] Calculated on the basis of monthly AuM levels | [2] Net acquisition consisting of acquisition of CHF +0.4bn Wergen & Partner and CHF -0.1bn resulting from discontinuation of offering to clients from selected countries | [3] Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland and continental Europe | [4] Assets under custody

NET NEW MONEY EXCEEDING TARGET RANGE

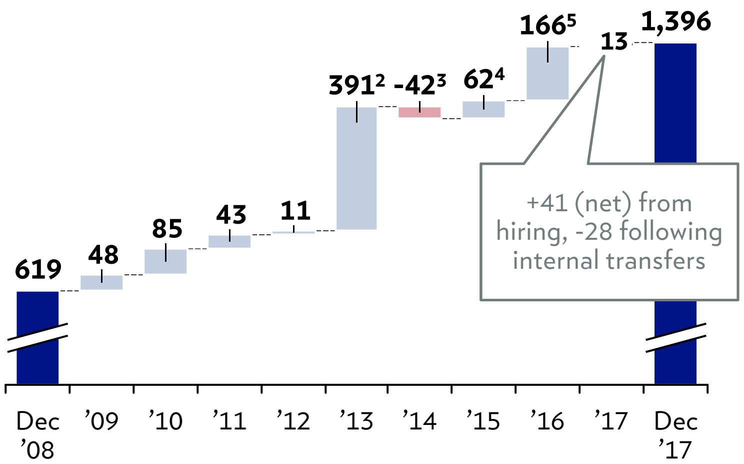
Strong contributions from RMs hired in 2016 and 2017

Net New Money



- NNM: CHF 22.2bn (6.6%)
- Particularly strong inflows from Asia and Middle East …
- … and substantial recovery in Latin America
- Continued healthy NNM in traditional European markets, including strong contributions from Monaco and UK
- Limited impact from tax regularisations of legacy assets

Relationship Managers



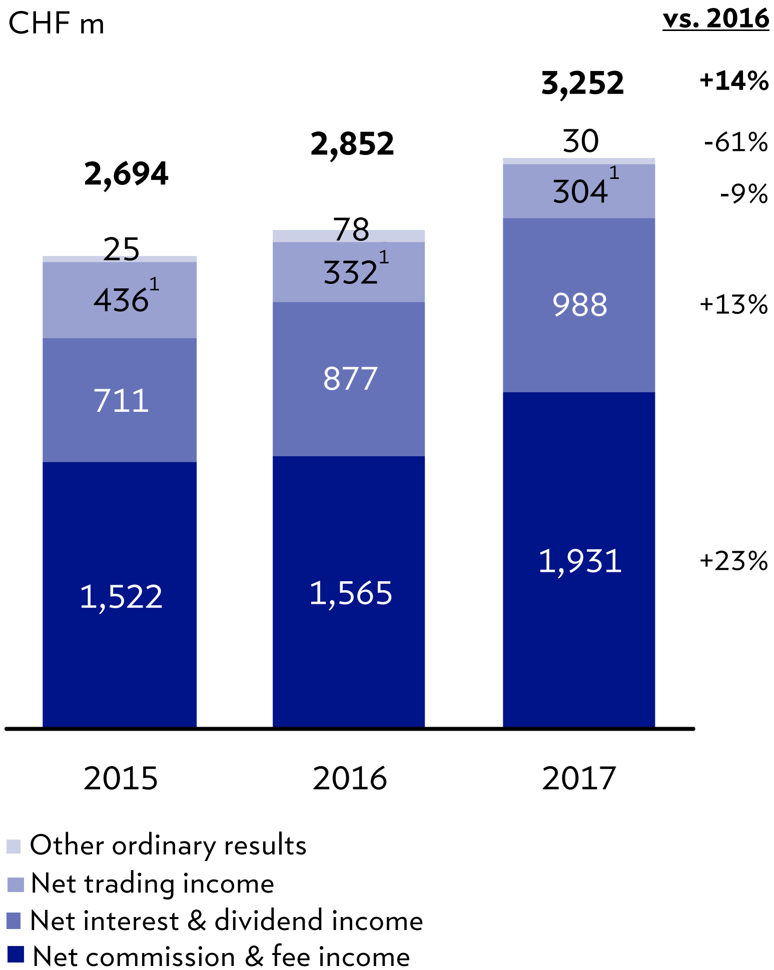
- 2017 net hiring: +41 RMs
- Net increase of 13 RMs, as 28 RMs transferred to client-facing management roles

[1] Annualised NNM in % of AuM at the beginning of the period | [2] 2013: +391, mostly from RMs transferring in from Bank of America's International Wealth Management business (IWM) outside the US | [3] 2014: -42, driven by IWM transaction-related synergy realisations | [4] 2015: +62, of which net 40 from hiring, remainder from acquisitions
[5] Including 50 RMs transferring following the consolidation of Kairos and Commerzbank International S.A. Luxembourg

OPERATING INCOME +14% TO CHF 3.3bn

Excluding CHF 39m Kairos fair value adjustment in 2016: +16%

Operating Income



Net commission/fee income +23% to CHF 1,931m

- Broadly similar percentage increases in asset-based fees and transaction-driven commissions
- Increased asset-based fees driven by:
  - higher penetration of advisory mandates
  - full 12-month and improved contribution from Kairos

Net interest/dividend income +13% to CHF 988m

- Excl. dividend on trading portfolios[1]: +16% to CHF 792m
- Mainly on higher loan volumes and credit spreads …
- … partly offset by decrease in treasury portfolio and higher deposit rates

Net trading income -9% to CHF 304m

- Crediting back dividend on trading portfolios[1]: -5% to CHF 499m
- Decrease in overall FX volatility and volumes

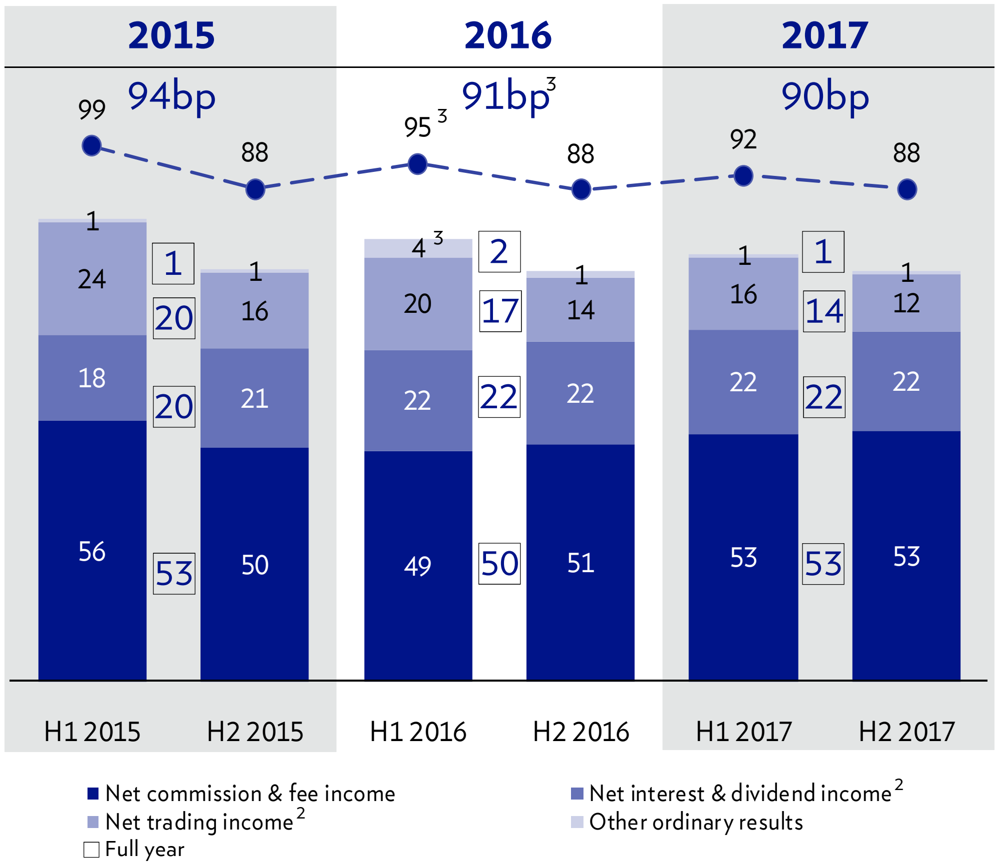
Other ordinary results from CHF 78m to CHF 30m

- 2016: CHF 39m from Kairos fair value adjustment
- Brand licence agreement with GAM Holding Ltd. was terminated in March 2017

[1] Dividend income on trading portfolios: 2017: CHF 195m (2016: CHF 192m, 2015: CHF 139m)

GROSS MARGIN[1]

Decline y-o-y in trading gross margin[2] was offset by increase in commission & fee gross margin



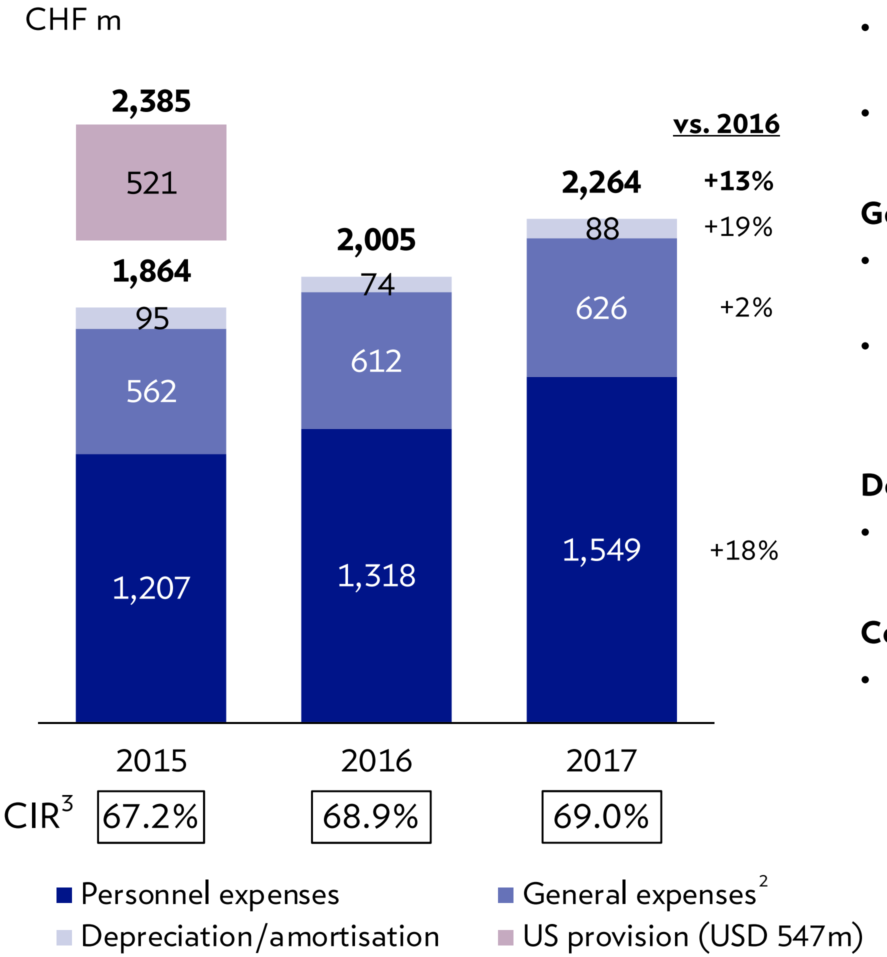
- 2016 Kairos fair value adjustment (CHF 39m): equivalent to 1.2 bp
- Excluding this item, the gross margin was stable y-o-y (-0.2 bp)
  - Commissions & fees +3 bp to 53 bp
  - Trading -3 bp to 14 bp
  - Net interest[2] stable at 22 bp

[1] Operating income divided by montly average AuM, in basis points. Average AuM H2 2017 was CHF 377bn, up 16% compared to H2 2016 and up 9% from H1 2017
[2] Net interest income adjusted to exclude dividends on trading portfolios, net trading income adjusted to include the same (H1 2015: CHF 122m, H2 2015: CHF 17m, H1 2016: CHF 180m, H2 2016: CHF 12m, H1 2017: CHF 181m, H2 2017: CHF 14m)
[3] Includes CHF 38.6m Kairos fair value adjustment (equal to 2.6 bp in H1 2016 and 1.2 bp in FY 2016)

OPERATING EXPENSES[1] +13% TO CHF 2.3bn

Excluding CHF 63m pension fund amendment in 2016: +9%

Operating Expenses[1]



Personnel expenses +18% to CHF 1,549m

- Excluding 2016 CHF 63m pension fund amendment: +12% from CHF 1,381m to CHF 1,549m
- 6% increase in average FTE

General expenses[2] +2% to CHF 626m

- Ongoing investments in core banking platforms and indirect impact of higher staff levels …
- … partly offset by CHF 20m decrease in valuation allowances, provisions and losses

Depreciation/amortisation +19% to CHF 88m

- Increase in IT-related investments over recent years

Cost/income ratio[3] 69.0%

- 3 percentage point underlying improvement, when excluding 2016 pension fund amendment and Kairos fair value adjustment (2016 underlying CIR was 72.0% on that basis)

Operating expenses[1] – approx. breakdown by currency

CHF	52%	SGD	10%	USD	6%	Other	5%
EUR	16%	HKD	7%	GBP	4%		

[1] Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments | [2] Including valuation allowances, provisions and losses | [3] Cost/income ratio not considering valuation allowances and provisions and losses

STRONG GROWTH IN OPERATING RESULT

Group adjusted net profit CHF 806m

CHF m	2016	2017	Change 2017/2016
Operating income	2,852	3,252	+14%
Adjusted operating expenses	2,005	2,264	+13%
Adjusted profit before taxes	**848**	**989**	**+17%**
Adjusted pre-tax margin (bp)	**27.1**	**27.3**	**+0.2 bp**
Income taxes	142	183	+29%
Adjusted net profit[1] for the Group	**706**	**806**	**+14%**
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	3.23	3.66	+13%
ROTE, adjusted[2] (%)	28.2%	29.7%	+1.5 pt
Tax rate (%)	16.8%	18.5%	+1.7 pt
IFRS net profit attributable to shareholders of Julius Baer Group Ltd.	619	705	+14%

When excluding the 2016 Kairos- and pension fund-related items (CHF 101m pre-tax; CHF 88m net of taxes[3]):

- Adjusted profit before taxes: +32% year-on-year
- Adjusted pre-tax margin: +3.5 bp (2016 underlying pre-tax margin was 23.8 bp on that basis)
- Adjusted net profit for the Group: +30% year-on-year
- IFRS net profit attributable to shareholders of Julius Baer Group Ltd.: +33% year-on-year

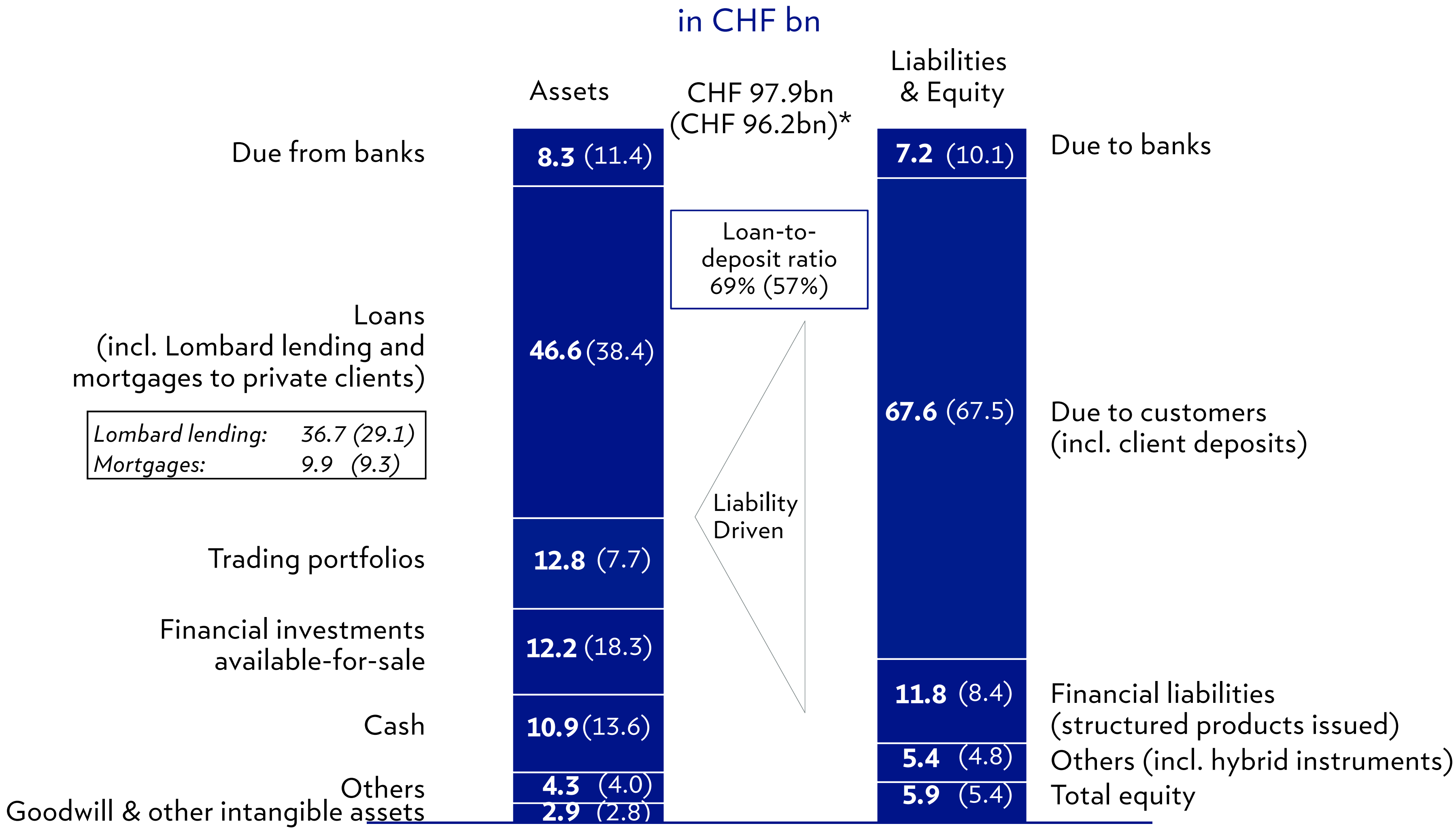
Tax guidance

- Adjusted tax rate (2017: 18.5%) likely to remain in 18-19% range in next few years

[1] Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments, as well as taxes on those items. Including these positions (see also reconciliation in Appendix), net profit was CHF 716m in 2017, up 15% from CHF 622m in 2016
[2] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets
[3] 22% taxes on CHF 63m pension fund amendment; no tax impact on Kairos fair value adjustment

SOLID BALANCE SHEET – TOTAL ASSETS STABLE

Low risk profile

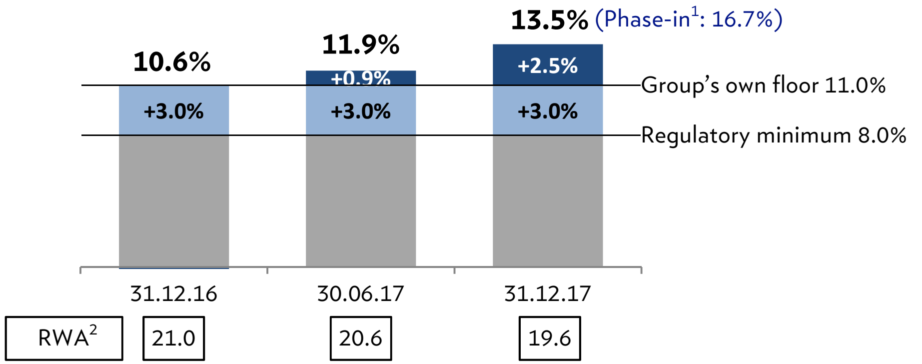


Figures as at 31 December 2017, summarised and regrouped from Financial Statements.
* In brackets: figures as at 31 December 2016

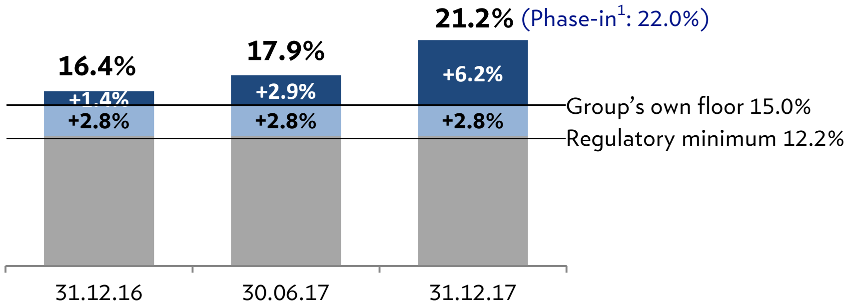
SIGNIFICANTLY STRENGTHENED CAPITAL RATIOS

Minimum regulatory requirement for tier 1 leverage ratio confirmed at 3%

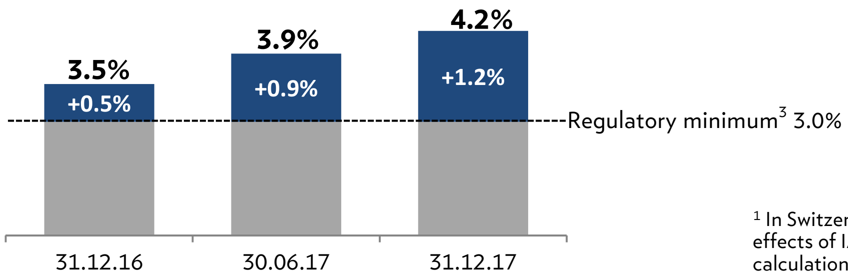
BIS CET1 capital ratio (fully applied)



BIS total capital ratio (fully applied)



Tier 1 leverage ratio (tier 1 capital fully applied)



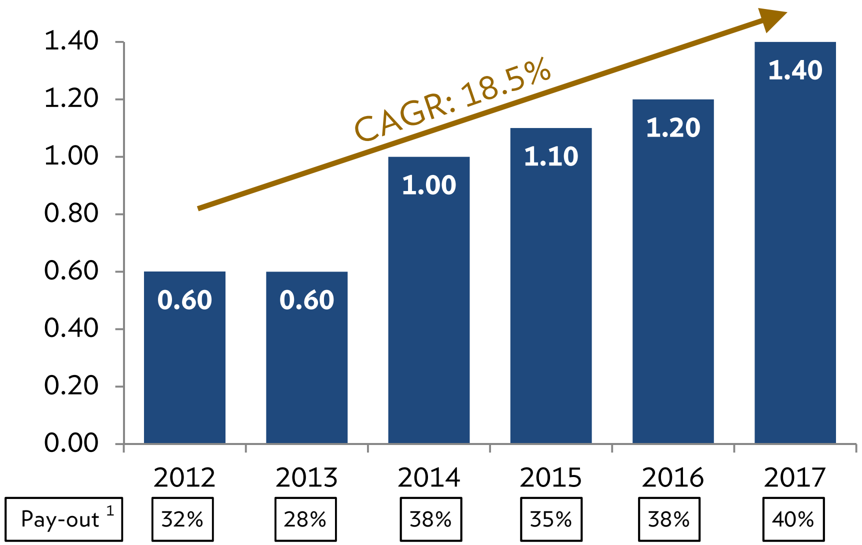
- Capital ratios well above minimum regulatory requirements and Group's own floors
- Fully applied CET1 capital ratio 13.5%, a 290 bp increase from end 2016
  - CHF 0.4bn CET1 capital build (net of CHF 0.3bn dividend accrual)
  - CHF 1.4bn RWA reduction, mainly on lower credit RWA, driven by improved collateral allocation and decrease in AFS portfolio
- Fully applied total capital ratio 21.2%, up 480 bp, helped by USD 300m AT1 bond issue
- Fully applied tier 1 leverage ratio 4.2%, well in excess of the newly confirmed minimum leverage ratio requirement of 3.0%[3]

[1] In Switzerland the Basel III framework came into effect on 1 January 2013. The Basel III effects but also the effects of IAS 19-revised relating to pension liabilities will be phased in between 2014 and 2018 for the calculation of the eligible capital | [2] Risk-weighted assets (fully applied), in CHF bn | [3] From 1 January 2018

FURTHER RISE IN DIVIDEND

Pay-out ratio[1] increased to 40%

Dividend per share (CHF) for financial years 2012-2017



Proposed dividend CHF 1.40, up 17%

- Fourth consecutive dividend increase
- To be paid out of statutory capital reserve
- Total distribution CHF 313m ...
- ... in line with pay-out target of ~40% of adjusted net profit attributable to shareholders

Unchanged dividend/capital return policy

- Intention to distribute ~40%[1] 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 buybacks could be considered

[1] Of adjusted net profit attributable to shareholders of Julius Baer Group Ltd. (2015: excluding CHF 521 million US provision (CHF 422 million net of tax))

CONTENT

Business Update

Bernhard Hodler, CEO

LEADING PURE-PLAY PRIVATE BANK

Sharpened strategy – three priorities

TRUSTED ADVISORS

Julius Baer as an unbiased partner with open architecture

FOCUSED MARKET COVERAGE

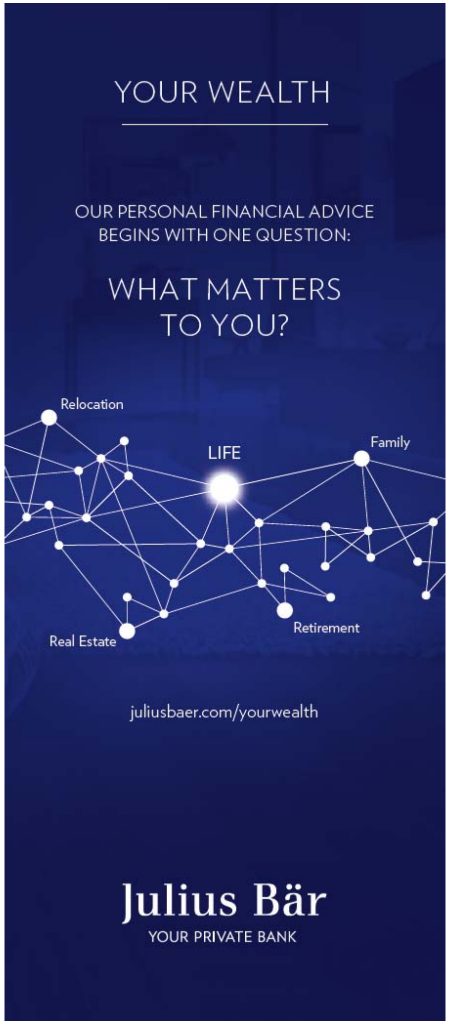
Enhancing the Group's market focus and effectiveness

GROWTH STRATEGY

Organic growth complemented by targeted M&A

TRUSTED ADVISORS

"What matters to you?"



Our promise to deliver the best possible financial solutions for our clients' needs.

WEALTH MANAGEMENT

WEALTH PLANNING

WEALTH FINANCING

- Holistic, in-depth advice from experts and solutions for every stage of a client's life
- Almost 50% of clients globally in fee-based mandates
- Upgraded state-of-the-art advisory platform for Europe-based Relationship Managers – further roll-outs in 2018
- Increased engagement of clients via digital touch-points

FOCUSED MARKET COVERAGE

Essential for further organic and sustainable growth

CORE MARKETS

- Core markets represent the vast majority of total AuM
- Targeted growth strategies in place for core markets (e.g. UK)
  - Market-specific offering
  - Local know-how and expertise

REGULAR MARKETS

- Maintained coverage of markets with considerable potential for growth

SMALL MARKETS

- Standardised and efficient coverage of clients in small markets

GROWTH STRATEGY

Concentrating on proven strengths

CAPITALISING ON OUR STRONG FRANCHISE

1

- Increase **share of wallet** through
  - Enhanced **client know-how**
  - **Holistic solutions**
  - **Cross-generation** relationships
  - **Scalable advisory experience**
- **Client referrals**

ATTRACTING TALENT

2

2016 **Smooth onboarding** of the accelerated hiring initiative population

2017 Continued hiring and **significant contribution of 2016 and 2017 hires to inflows**

2018 Aiming for normalised net hiring run rate of **~80 RMs p.a.**

TAKING ADVANTAGE OF M&A OPPORTUNITIES

3

- **Large transaction** (Merrill Lynch IWM)
- **Industry consolidation** (e.g. Commerzbank Luxembourg)
- **New market entry** (e.g. GPS in Brazil)

INTERNATIONAL GROWTH – EXAMPLE: LATIN AMERICA

Organic growth complemented by targeted M&A

Beatriz Sanchez
Head Latin America

- Joined Julius Baer in 2017 from Goldman Sachs

REGION LATIN AMERICA

- New regional leadership
- Positive business development, inflows recovering after voluntary disclosure programs
- Acquisition of Reliance, an independent wealth manager in Brazil with an advisory model – complementary to the discretionary model of GPS

MEDIUM-TERM TARGETS UNCHANGED

	Adjusted results[1]		
	FY 2016	FY 2017	Medium-term targets
Cost/income ratio[2]	72.0%[3]	69.0%	64-68%
Pre-tax margin	23.8 bp[3]	27.3 bp	>30bp
Net new money	4.0%	6.6%	4-6%

[1] Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments | [2] Excluding valuation allowances, provisions and losses | [3] 2016 cost/income ratio and pre-tax margin when excluding the impacts of the Kairos fair value adjustment and the Swiss pension plan amendment

Appendix

SCOPE OF PRESENTATION OF FINANCIALS

Financial results are presented as usual on the adjusted basis

- *Excluding* integration and restructuring expenses and the amortisation of intangible assets related to acquisitions or divestments, as well as taxes on those respective items
- Reconciliation from the IFRS results to the adjusted results is outlined in the Appendix
- Please refer to the Julius Baer Group Ltd. Consolidated Financial Statements 2017 (audited)[1] for the IFRS results

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- The 2016 results included a benefit of CHF 39 million in operating income resulting from the Kairos fair value adjustment following the acquisition of an additional 60% stake in Kairos in April 2016 as well as a CHF 63 million benefit to operating expenses resulting from the amendment to the Swiss pension plan (together CHF 101 million, or CHF 88 million net of taxes)
- The commentary in this presentation occasionally refers to the operational development, which would result if these two items were excluded from the results in 2016

[1] Available from www.juliusbaer.com

RECONCILIATION CONSOLIDATED FINANCIAL STATEMENTS[1]

IFRS to adjusted net profit

CHF m	2015	2016	2017	Change 2017/2016
IFRS net profit attributable to shareholders of Julius Baer Group Ltd.	121.2	619.4	704.8	+14%
Non-controlling interests	1.4	2.7	11.1	+307%
Profit after tax per consolidated Financial Statements (IFRS)	**122.5**	**622.1**	**715.9**	**+15%**
Amortisation of intangible assets related to the UBS transaction	67.8	-	-	-
Amortisation of intangible assets related to the ING transaction	16.3	16.3	16.3	+0%
Amortisation of intangible assets related to the IWM transaction[2]	34.5	36.1	36.3	+0%
Amortisation of intangible assets related to the GPS transaction	4.4	4.4	4.7	+6%
Amortisation of intangible assets related to the Kairos transaction	-	6.7	8.9	+33%
Amortisation of intangible assets related to the Commerzbank Lux. transaction	-	0.8	1.7	+100%
Amortisation of intangible assets related to the Leumi and Fransad transactions	1.0	1.9	1.9	+0%
Amortisation of intangible assets related to the Wergen transaction	-	-	0.7	-
Amortisation of intangible assets related to the WMPartners transaction	-	-	1.4	-
Integration, restructuring and transaction costs	46.3	28.7	30.2	+5%
Tax impact	-13.6	-11.6	-12.4	+7%
Net impact	**156.6**	**83.4**	**89.8**	**+8%**
Adjusted net profit for the Group	**279.2**	**705.5**	**805.6**	**+14%**
US settlement, provision	521.3	-	-	-
Tax impact	-99.0	-	-	-
Net impact	**422.3**	**-**	**-**	**-**
Adjusted net profit for the Group (excluding US provision)	**701.5**	**705.5**	**805.6**	**+14%**

Further details on transaction-related amortisation:

- ING: CHF 16.3m p.a. until December 2019
- IWM: approx. CHF 36m p.a. for most of the years[2] until October 2024
- 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 0.7m for February 2017 - December 2017, going forward CHF 0.8m p.a. until January 2026
- WMPartners: CHF 1.4m p.a. until December 2022

[1] Please see detailed financial statements in the Consolidated Financial Statements 2017
[2] The acquisition of IWM took place in steps and is to a small extent subject to CHF translation effects

ADJUSTED* NET PROFIT CHF 806m

Annually – *including* 2015 US provision**

CHF m	2015	2016	2017	Change 2017/2016	2017 in %
Net interest and dividend income [1]	711	877	988	+13%	30%
Net commission and fee income	1,522	1,565	1,931	+23%	59%
Net trading income [1]	436	332	304	-9%	9%
Other ordinary results	25	78	30	-61%	1%
Operating income	**2,694**	**2,852**	**3,252**	**+14%**	**100%**
Personnel expenses	1,207	1,318	1,549	+18%	68%
General expenses [2]	1,083	612	626	+2%	28%
Depreciation and amortisation	95	74	88	+19%	4%
Operating expenses	**2,385**	**2,005**	**2,264**	**+13%**	**100%**
Profit before taxes	**309**	**848**	**989**	**+17%**	
Pre-tax margin (bp) [4]	10.7	27.1	27.3	+0.2 bp	
Income taxes	30	142	183	+29%	
Adjusted net profit for the Group [3]	**279**	**706**	**806**	**+14%**	
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	1.27	3.23	3.66	+13%	
ROTE, adjusted (%) [6]	10.2%	28.2%	29.7%	+1.5% pt	
Gross margin (bp) [4]	93.6	91.1	89.7	-1.4 bp	
Cost/income ratio (%) [5]	67.2	68.9	69.0	+0.1% pt	
Tax rate	9.7%	16.8%	18.5%	+1.7% pt	
Staff (FTE)	5,364	6,026	6,292	+4%	
Valuation allowances, provisions and losses	575	40	20	-50%	
Net new money (CHF bn)	12.1	11.9	22.2	+87%	
Assets under management (CHF bn)	299.7	336.2	388.4	+16%	
Average assets under management (CHF bn)	288.0	313.1	362.5	+16%	

* Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments, as well as taxes on those items

** USD 547 million (CHF 521 million) provision taken in 2015 for Julius Baer's settlement with the US Department of Justice concerning Julius Baer's legacy US cross-border business (the final settlement was announced on 5 February 2016)

[1] Net interest income contains dividend income (2015: CHF 139m, 2016: CHF 192m, 2017: CHF 195m) on trading portfolios
[2] Including valuation allowances, provisions and losses
[3] Including non-controlling interests of CHF 1.9m for 2015, CHF 4.1m for 2016 and CHF 12.8m for 2017
[4] Based on average AuM
[5] Not considering valuation allowances, provisions and losses
[6] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets

ADJUSTED* NET PROFIT CHF 806m

Annually – *excluding* 2015 US provision**

CHF m	2015	2016	2017	Change 2017/2016	2017 in %
Net interest and dividend income [1]	711	877	988	+13%	30%
Net commission and fee income	1,522	1,565	1,931	+23%	59%
Net trading income [1]	436	332	304	-9%	9%
Other ordinary results	25	78	30	-61%	1%
Operating income	**2,694**	**2,852**	**3,252**	**+14%**	**100%**
Personnel expenses	1,207	1,318	1,549	+18%	68%
General expenses [2]	562	612	626	+2%	28%
Depreciation and amortisation	95	74	88	+19%	4%
Operating expenses	**1,864**	**2,005**	**2,264**	**+13%**	**100%**
Profit before taxes	**830**	**848**	**989**	**+17%**	
Pre-tax margin (bp) [4]	28.8	27.1	27.3	+0.2 bp	
Income taxes	129	142	183	+29%	
Adjusted net profit for the Group (excl. 2015 US provision) [3]	**701**	**706**	**806**	**+14%**	
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	3.20	3.23	3.66	+13%	
ROTE, adjusted (%) [6]	25.7%	28.2%	29.7%	+1.5% pt	
Gross margin (bp) [4]	93.6	91.1	89.7	-1.4 bp	
Cost/income ratio (%) [5]	67.2	68.9	69.0	+0.1% pt	
Tax rate	15.5%	16.8%	18.5%	+1.7% pt	
Staff (FTE)	5,364	6,026	6,292	+4%	
Valuation allowances, provisions and losses	53	40	20	-50%	
Net new money (CHF bn)	12.1	11.9	22.2	+87%	
Assets under management (CHF bn)	299.7	336.2	388.4	+16%	
Average assets under management (CHF bn)	288.0	313.1	362.5	+16%	

* Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments, as well as taxes on those items
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[1] Net interest income contains dividend income (2015: CHF 139m, 2016: CHF 192m, 2017: CHF 195m) on trading portfolios
[2] Including valuation allowances, provisions and losses
[3] Including non-controlling interests of CHF 1.9m for 2015, CHF 4.1m for 2016 and CHF 12.8m for 2017
[4] Based on average AuM
[5] Not considering valuation allowances, provisions and losses
[6] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets

ADJUSTED* HALF-YEARLY PERFORMANCE

CHF m	H1 2016	H2 2016	H1 2017	H2 2017	Change H2 17/H2 16	Change H2 17/H1 17	H2 2017 in %
Net interest and dividend income [1]	510	367	566	421	+15%	-26%	25%
Net commission and fee income	739	826	922	1,009	+22%	+9%	61%
Net trading income [1]	118	215	90	214	-1%	+137%	13%
Other ordinary results	58	20	14	17	-18%	+22%	1%
Operating income	**1,425**	**1,428**	**1,592**	**1,660**	**+16%**	**+4%**	**100%**
Personnel expenses	623	695	762	787	+13%	+3%	68%
General expenses [2]	285	327	294	332	+1%	+13%	28%
Depreciation and amortisation	31	43	42	46	+7%	+9%	4%
Operating expenses	**940**	**1,065**	**1,098**	**1,166**	**+9%**	**+6%**	**100%**
Profit before taxes	**485**	**363**	**494**	**495**	**+36%**	**+0%**	
Pre-tax margin (bp) [4]	32.2	22.3	28.4	26.2	+3.9 bp	-2.2bp	
Income taxes	83	59	90	93	+57%	+3%	
Adjusted net profit for the Group[3]	**402**	**304**	**404**	**402**	**+32%**	**-0%**	
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	1.84	1.38	1.84	1.82	+31%	-1%	
ROTE, adjusted (%) [6]	32.3%	24.8%	31.6%	28.6%	+3.8% pt	-3.0% pt	
Gross margin (bp) [4]	94.7	87.7	91.6	88.0	+0.3 bp	-3.6 bp	
Cost/income ratio (%) [5]	64.7	73.0	69.1	68.9	-4.2% pt	-0.2% pt	
Tax rate	17.1%	16.3%	18.3%	18.8%	+2.5% pt	+0.5% pt	
Staff (FTE)	5,856	6,026	6,205	6,292	+4%	+1%	
Valuation allowances, provisions and losses	18	22	-2	22	-1%	-	
Net new money (CHF bn)	5.5	6.4	10.2	11.9	+87%	+16%	
Assets under management (CHF bn)	311.4	336.2	354.7	388.4	+16%	+10%	
Average assets under management (CHF bn)	300.8	325.5	347.7	377.4	+16%	+9%	

* Excluding integration and restructuring expenses and the amortisation of intangible assets related to acquisitions and divestments, as well as taxes on those items

[1] Net interest income contains dividend income (H1 2016: 180m, H2 2016: CHF 12m, H1 2017: CHF 181m, H2 2017: CHF 14m) on trading portfolios

[2] Including valuation allowances, provisions and losses

[3] Including non-controlling interests of CHF 1.2m for H1 2016, CHF 2.8m for H2 2016, CHF 4.5m for H1 2017 and CHF 8.3m for H2 2017

[4] Based on average AuM

[5] Not considering valuation allowances, provisions and losses

[6] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets

DETAILED RWA AND CAPITAL RATIO DEVELOPMENT

BIS approach / CHF m	31.12.2016 Basel III [2] phase-in	30.06.2017 Basel III [2] phase-in	31.12.2017 Basel III [2] phase-in	31.12.2016 Basel III fully applied	30.06.2017 Basel III fully applied	31.12.2017 Basel III fully applied
Risk-weighted positions						
Credit risk	14,903	14,073	13,628	15,031	14,187	13,742
Non-counterparty-related risk	507	442	446	369	364	357
Market risk	958	1,253	561	958	1,253	561
Operational risk	4,635	4,796	4,941	4,635	4,796	4,941
Total risk-weighted positions	**21,002**	**20,564**	**19,576**	**20,993**	**20,600**	**19,601**
CET1 capital [1]	3,444	3,060	3,261	2,231	2,458	2,643
Tier 1 capital [1]	3,597	3,720	4,235	3,366	3,603	4,098
- of which tier 1 capital 'fully eligible Basel III instruments'	*1,135*	*1,145*	*1,455*	*1,135*	*1,145*	*1,455*
Eligible total capital [1]	3,667	3,800	4,298	3,442	3,686	4,164
CET1 capital ratio [1]	**16.4%**	**14.9%**	**16.7%**	**10.6%**	**11.9%**	**13.5%**
Tier 1 capital ratio [1]	**17.1%**	**18.1%**	**21.6%**	**16.0%**	**17.5%**	**20.9%**
Total capital ratio [1]	**17.5%**	**18.5%**	**22.0%**	**16.4%**	**17.9%**	**21.2%**
Leverage ratio (LERA, tier 1 divided by total exposure)	3.8%	4.0%	4.4%	3.5%	3.9%	4.2%
Liquidity coverage ratio (LCR)				156.5%	123.3%	144.8%
Net stable funding ratio (NSFR)				123.8%	118.9%	119.0%
Leverage exposure (LERA)				95,202	92,048	96,949

- Regulatory minimum: CET1 capital ratio 8.0%, total capital ratio 12.2%, leverage ratio 3.0%
- Group's own floors: CET1 capital ratio 11.0%, total capital ratio 15.0%
- CHF 250m AT1 bond (5.375% coupon) to be redeemed on 19 March 2018 (as announced on 29 January 2018):
  - -130 bp pro forma impact on total and tier 1 capital ratios
  - no impact on CET1 capital ratio
- Final phase-in effect applied in January 2018

[1] After dividend | [2] In Switzerland the Basel III framework came into effect on 1 January 2013; the Basel III effects but also the effects of IAS 19-revised relating to pension liabilities are being phased in between 2014 and 2018 for the calculation of eligible capital

CAPITAL DEVELOPMENT

Basel III fully applied

CHF m	31.12.2016 Basel III fully applied	31.12.2017 Basel III fully applied	Change	30.06.2017 Basel III fully applied	31.12.2017 Basel III fully applied	Change last 6 months
Equity at the beginning of the year	**4,942**	**5,354**	**+8%**	**5,354**	**5,354**	**+0%**
Julius Baer Group Ltd. dividend	-246	-269	+9%	-269	-269	+0%
Net profit (IFRS)	622	716	+15%	357	716	+101%
Change in treasury shares	-44	-13		-58	-13	
Treasury shares and own equity derivative activity	23	29		-18	29	
Other components of equity	69	43		67	43	
Financial investments available-for-sale	*28*	*10*		*41*	*10*	
Remeasurement of defined benefit obligation	*19*	*3*		*37*	*3*	
FX translation differences	*23*	*30*		*-10*	*30*	
Others	-12	-6		-6	-6	
Equity at the end of the year	**5,354**	**5,854**	**+9%**	**5,427**	**5,854**	**+8%**
- Goodwill & intangible assets (as per capital adequacy rules)	-2,784	-2,837	+2%	-2,802	-2,837	+1%
- Other deductions	-339	-374	+10%	-167	-374	+124%
+ Effects of IAS 19 revised relating to pension liabilities	-	-	-	-	-	-
CET1 capital	**2,231**	**2,643**	**+18%**	**2,458**	**2,643**	**+8%**
+ Tier 1 capital instruments	1,135	1,455	+28%	1,145	1,455	+27%
= BIS tier 1 capital	**3,366**	**4,098**	**+22%**	**3,603**	**4,098**	**+14%**
+ Tier 2 capital	76	66	-13%	83	66	-20%
= BIS total capital	**3,442**	**4,164**	**+21%**	**3,686**	**4,164**	**+13%**

CAPITAL DEVELOPMENT

Basel III phase-in

CHF m	31.12.2016 Basel III phase-in	31.12.2017 Basel III phase-in	Change	30.06.2017 Basel III phase-in	31.12.2017 Basel III phase-in	Change last 6 months
Equity at the beginning of the year	**4,942**	**5,354**	**+8%**	**5,354**	**5,354**	**+0%**
Julius Baer Group Ltd. dividend	-246	-269	+9%	-269	-269	+0%
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Financial investments available-for-sale	*28*	*10*		*41*	*10*	
Remeasurement of defined benefit obligation	*19*	*3*		*37*	*3*	
FX translation differences	*23*	*30*		*-10*	*30*	
Others	-12	-6		-6	-6	
Equity at the end of the year	**5,354**	**5,854**	**+9%**	**5,427**	**5,854**	**+8%**
- Goodwill & intangible assets (as per capital adequacy rules)	-1,671	-2,270	+36%	-2,242	-2,270	+1%
- Other deductions	-320	-363	+13%	-158	-363	+130%
+ Effects of IAS 19 revised relating to pension liabilities	81	40	-51%	33	40	+21%
= CET1 capital[1]	**3,444**	**3,261**	**-5%**	**3,060**	**3,261**	**+7%**
+ Tier 1 capital instruments	1,135	1,455	+28%	1,145	1,455	+27%
- Goodwill & intangible assets as per phase-in rules	-982	-481	-51%	-485	-481	-1%
= BIS tier 1 capital[1]	**3,597**	**4,235**	**+18%**	**3,720**	**4,235**	**+14%**
+ Tier 2 capital	70	63	-10%	80	63	-21%
= BIS total capital	**3,667**	**4,298**	**+17%**	**3,800**	**4,298**	**+13%**

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

BALANCE SHEET – FINANCIAL INVESTMENTS AFS

CHF m	31.12.2015	31.12.2016	31.12.2017	*in %*	Change vs. 31.12.2016
Money market instruments	**2,298**	**3,785**	**2,191**	**18%**	**-42%**
Debt instruments	**14,177**	**14,316**	**9,869**	**81%**	**-31%**
Government and agency bonds	3,560	3,477	2,307	19%	-34%
Financial institution bonds	6,187	6,296	4,118	34%	-35%
Corporate bonds	4,388	4,500	3,437	28%	-24%
Other bonds	42	44	6	0%	-86%
Equity instruments	**97**	**166**	**187**	**2%**	**+13%**
Total financial investments available-for-sale	**16,573**	**18,267**	**12,247**	**100%**	**-33%**
Cash with central banks	9,154	13,571	10,838		-20%

Debt instruments by credit rating classes (excluding money market instruments)	Fitch, S&P	Moody's	31.12.2015	31.12.2016	31.12.2017	*in %*	Change vs. 31.12.2016
1–2	AAA – AA-	Aaa – Aa3	9,122	9,491	7,237	*73%*	-24%
3	A+ – A-	A1 – A3	4,662	4,459	2,474	*25%*	-45%
4	BBB+ – BBB-	Baa1 – Baa3	287	267	127	*1%*	-52%
5	BB+ – BB-	Ba1 – Ba3	43	52	17	*0%*	-68%
7	CCC+ – D	Caa1 – C	4	-	-	-	-
Unrated[1]			59	47	13	*0%*	-73%
Total			**14,177**	**14,316**	**9,869**	***100%***	**-31%**

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

BREAKDOWN OF AUM

Asset mix	31.12.2015	31.12.2016	31.12.2017
Equities	27%	27%	28%
Bonds (including Convertible Bonds)	19%	19%	19%
Investment Funds [1]	23%	24%	26%
Money Market Instruments[2]	4%	3%	3%
Client Deposits[2]	21%	20%	18%
Structured Products	5%	5%	5%
Other, including alternative investment assets	1%	2%	1%
Total	**100%**	**100%**	**100%**

Currency mix	31.12.2015	31.12.2016	31.12.2017
USD	46%	45%	45%
EUR	21%	22%	23%
CHF	12%	11%	10%
GBP	4%	4%	4%
HKD	3%	3%	4%
INR	2%	2%	3%
SGD	2%	2%	2%
BRL	1%	2%	1%
JPY	1%	1%	1%
AUD	1%	1%	1%
CNY	1%	1%	1%
CAD	1%	1%	1%
Others	5%	5%	4%
Total	**100%**	**100%**	**100%**

[1] Includes, amongst other asset classes, further exposure to equities and bonds
[2] Reversal of a restatement as at 31.12.2016

JULIUS BAER: PURE-PLAY PRIVATE BANKING GROUP

Well positioned for further growth

Legend

- Head office
- Location
- Booking centre
- GPS (100%)
- Kairos (100%)
- NSC (40%)
- Reliance (95%)

- World's largest pure-play private banking Group
- Premium brand in global wealth management
- Client-centric approach
- Balanced exposure to traditional and growth markets
- Present in more than 50 locations
- >6,000 highly dedicated staff, incl. almost 1,400 RMs
- AuM CHF 388bn[1]
- Strongly capitalised:
  - BIS total capital ratio 21.2%[1]
  - BIS CET1 capital ratio 13.5%[1]
- Moody's long-term deposit rating Bank Julius Baer & Co. Ltd.: Aa2 / stable outlook
- Market capitalisation: CHF 14bn[2]

[1] At 31 December 2017, Basel III fully applied | [2] At 30 January 2018 | [3] Additional advisory locations in Bangalore, Chennai, Kolkata and New Delhi

CAUTIONARY STATEMENT ON FORWARD-LOOKING INFORMATION

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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.

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Julius Bär

Julius Bär

BUSINESS REVIEW 2017

JULIUS BAER GROUP

Pre-print as at 31 January 2018

OUR MISSION

Julius Baer is the leading Swiss private banking group. We focus on providing high-end services and in-depth advice to private clients around the world. Our relationships are built on partnership, continuity and mutual trust. Julius Baer is synonymous with best-in-class investment and wealth planning solutions based on the *Julius Baer open product platform*. We actively embrace change to remain at the leading edge of a genuine growth industry – as we have done for over 125 years.

As the international reference in private banking, we manage our company for the long term and pursue a corporate strategy founded on four cornerstones:

We passionately live **pure** private banking – for our clients locally and worldwide

We are **independent** – remaining true to our Swiss family heritage

We give **objective** advice – leveraging our expertise via the Julius Baer open product platform

We are **entrepreneurial** and innovative – setting the pace in the industry

This is built on a platform that prioritises prudent financial and risk management and aims to deliver sustainable, industry-leading growth.

Our dynamic strategy allows us to capture the strong wealth creation dynamics of growth markets and to further penetrate the high wealth concentration of our core European markets.

We continue to build the business with a combination of organic and inorganic growth, broadening our teams of highly qualified relationship managers and cooperating with strong commercial partners, while at the same time remaining vigilant to acquisitive growth opportunities provided they offer a valuable strategic and cultural fit.

CONTENTS

Cover pictures:
Impressions from inside the client reception area at the Head Office in Zurich.
Welcome to Julius Baer!

KEY FIGURES JULIUS BAER GROUP[1]

	2017 *CHF m*	2016 *CHF m*	*Change in %*
Consolidated income statement			
Operating income	3,252.2	2,852.4	14.0
Adjusted operating expenses	2,263.6	2,004.8	12.9
Profit before taxes	988.6	847.6	16.6
Adjusted net profit for the Group	805.6	705.5	14.2
Cost/income ratio[2]	69.0%	68.9%	-
Pre-tax margin (basis points)	27.3	27.1	-

	31.12.2017	31.12.2016	*Change in %*
Assets under management (CHF bn)			
Assets under management	388.4	336.2	15.5
Net new money	22.2	11.9	-
Consolidated balance sheet (CHF m)			
Total assets	97,917.6	96,207.2	1.8
Total equity	5,854.0	5,353.9	9.3
BIS total capital ratio	22.0%	17.5%	-
BIS CET1 capital ratio	16.7%	16.4%	-
Personnel (FTE)			
Number of employees	6,292	6,026	4.4
Number of relationship managers	1,396	1,383	0.9
Capital structure			
Number of shares	223,809,448	223,809,448	-
Market capitalisation (CHF m)	13,339	10,123	31.8
Moody's rating Bank Julius Baer & Co. Ltd.			
Long-term deposit rating	Aa2	Aa2	
Short-term deposit rating	Prime-1	Prime-1	

[1] Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments. Including these items, the IFRS net profit for 2017 amounted to CHF 716 million (2016 CHF 622 million).

[2] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

FOREWORD

Dear Reader

2017 proved to be a successful year for Julius Baer. Supported by an overall favourable financial market environment, the operating performance of our Group showed clear improvement on all levels as we reaped the fruits of last year's strategic hiring initiative and organisational changes. These developments as well as the prestigious award as the *World's Best Bank for Wealth Management* we received from *Euromoney* last summer are further validations of our long-term strategy. Building on our strong business momentum, we pushed ahead with the implementation of our strategic roadmap designed to keep our company fighting-fit for the future.

'The financial strength of our Group is a reflection of our clients' trust in our ability to act as their advisors.'

The financial strength of our Group is a reflection of our clients' trust in our ability to act as their advisors. The adjusted net profit[1] for 2017 was at an all-time high, and net new money growth exceeded our medium-term target range of 4–6%. At the end of December 2017, the Group's total capital ratio stood at 22.0% (fully applied 21.2%) and the BIS CET1 capital ratio was at 16.7% (fully applied 13.5%). Both capital ratios are well above the Group's own floors of 15% and 11%, and significantly above the regulatory minimums of 12.2% and 8%. The strengthening of the total capital ratio was partly attributable to the successful placement of USD 300 million of perpetual non-cumulative high-trigger Additional Tier 1 (AT1) securities in September 2017, which generated the biggest subscription level of any European issue in 2017. In light of the excellent financial results, the Board of Directors intends to propose to the Annual General Meeting on 11 April 2018 an increased dividend of CHF 1.40 per share. The total proposed dividend payout amounts to CHF 313 million, up from CHF 269 million in 2017, or 40% of the adjusted net profit for 2017, in line with the target pay-out percentage introduced in February 2016.

Under the leadership of CEO Bernhard Hodler, appointed in November 2017, our management team will further sharpen our strategic focus on pure private banking and exploit the opportunities for profitable growth in our chosen markets. Our global franchise is well balanced across geographies and enables us to benefit from wealth creation in established and growth markets alike. At the same time, our industry is evolving at a fast pace. Changes in regulation and client needs redefine every aspect of our business, from the way we advise our clients to the products and services we offer and the job profiles of our employees. With digitalisation sweeping through virtually every aspect of

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

modern life, technology becomes an increasingly important aspect of any value proposition. Continued development is key, and we are fortunate to be able to harness these trends from a position of strength. We continue to invest in our core banking platforms, the scalability of processes, our investment solutions capabilities and digital tools. The overarching objective is to provide our clients with holistic wealth management services that cover every stage of their individual lives. We call our approach *Julius Baer – Your Wealth.* It was introduced in 2015 with the offering of a range of new advisory mandates. The comprehensive toolset required for our relationship managers to deliver on this promise in a consistent and efficient manner will be fully rolled out in our Swiss home market in the coming months. In parallel, we are constantly enhancing our digital channels in line with clients' evolving desire to interact, transact and receive advice and insights online. We regard these efforts as vital to our ability to offer a high-quality client experience, to remain one of the most trusted and respected private banks and to continue to grow profitably across the next business cycles.

In our business, trust is earned day after day – with clients, shareholders, bond-holders and employees. We would like to thank all our stakeholders for their appreciation of our efforts and we hope to count on their continued support.

Daniel J. Sauter
Chairman

Bernhard Hodler
Chief Executive Officer

FINANCIAL PERFORMANCE IN 2017

In 2017, Julius Baer succeeded in capitalising on the benefits of the major investment in relationship manager hiring during the previous year as well as the significant market performance impact on assets under management. Adjusted net profit[1] for the Group improved to a record CHF 806 million, a year-on-year increase of 30% when excluding the Kairos fair value adjustment and the Swiss pension fund plan amendment from the 2016 results.

Dieter A. Enkelmann, Chief Financial Officer

Assets under management (AuM) grew by 16%, or CHF 52 billion, to CHF 388 billion. The growth in AuM was the result of market performance of CHF 34 billion, net new money of CHF 22 billion (6.6%), a positive currency impact of CHF 2 billion, as well as a small net positive acquisition impact of CHF 0.3 billion. AuM were impacted by an end-of-year reclassification of CHF 6 billion to custody assets, following the completion of the roll-out of the new client advisory models in Switzerland and continental Europe.

The net new money pace accelerated to 6.6%, exceeding the Group's medium-term target range (4–6%). Net new money was helped particularly by strong net inflows from clients domiciled in Asia and the Middle East, a substantial recovery in Latin America, and continued healthy net new money development in the traditional European markets, including strong contributions from Monaco and the UK. The relationship managers (RMs) hired in 2016 and 2017 contributed significantly to the inflows.

Including assets under custody of CHF 69 billion, total client assets grew by 17% to CHF 457 billion.

'The net new money pace accelerated to 6.6%, exceeding the Group's medium-term target range of 4–6%.'

Operating income rose to CHF 3,252 million. The 14% increase was slightly lower than the 16% growth in monthly average AuM (to CHF 363 billion), leading to a decline in the gross margin by 1 basis point (bp) to 90 bps. In 2016, however, operating income included a positive fair value adjustment of CHF 39 million (or 1.2 bps in gross margin terms) resulting from the acquisition of an additional 60.1% stake in Kairos that year. Excluding this impact, the rise in operating income was 16% and the gross margin was essentially unchanged.

Net commission and fee income grew by 23% to CHF 1,931 million. The significant increase was driven by a further improvement in asset-based fee income as well as by strong growth in client transaction commissions. Asset-based revenues were fuelled by an increased penetration of advisory mandates and a full twelve-month and strongly improved contribution from Kairos, which was consolidated as of 1 April 2016 and saw good performance in its key products.

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

CONSOLIDATED INCOME STATEMENT[1]

	2017 CHF m	2016 CHF m	Change %
Net interest and dividend income	987.8	877.1	12.6
Net commission and fee income	1,930.6	1,564.9	23.4
Net trading income	303.6	332.5	-8.7
Other ordinary results	30.3	77.9	-61.1
Operating income	**3,252.2**	2,852.4	14.0
Personnel expenses	1,549.0	1,318.0	17.5
General expenses[2]	626.4	612.4	2.3
Depreciation and amortisation	88.2	74.4	18.5
Adjusted operating expenses	**2,263.6**	2,004.8	12.9
Profit before taxes	**988.6**	847.6	16.6
Income taxes	183.0	142.1	28.8
Adjusted net profit for the Group	**805.6**	705.5	14.2
Attributable to:			
Shareholders of Julius Baer Group Ltd.	792.9	701.5	13.0
Non-controlling interests	12.8	4.1	-
Adjusted EPS attributable to shareholders of Julius Baer Group Ltd. (CHF)	3.66	3.23	13.3
Key performance ratios			
Cost/income ratio[3]	69.0%	68.9%	-
Gross margin (basis points)	89.7	91.1	-
Pre-tax margin (basis points)	27.3	27.1	-
Tax rate	18.5%	16.8%	-

[1] Adjusted results derived by excluding from the audited IFRS financial statements the integration and restructuring expenses as well as the amortisation of intangible assets related to previous acquisitions or divestments. Including these items, the IFRS net profit for 2017 amounted to CHF 716 million (2016 CHF 622 million).

[2] Including valuation allowances, provisions and losses.

[3] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.

Net interest and dividend income rose by 13% to CHF 988 million. It included CHF 195 million of dividend income on trading portfolios, up 2%. Excluding this item, underlying net interest and dividend income went up by 16% to CHF 792 million, driven mainly by an increase in loan volumes and higher credit spreads, partly offset by a rise in interest rates payable on client deposits. Interest income on the portfolio of financial investments available-for-sale (AFS) was slightly lower as the benefit from higher US interest rates was more than offset by a 33% reduction in the size of the AFS book.

Net trading income fell by 9% to CHF 304 million. Including the dividend income related to trading portfolios, underlying net trading income decreased by 5% to CHF 499 million. This decline follows a substantial year-on-year decrease in overall FX volatility and volumes.

Other ordinary results (which among other items includes income from associates, rental income and net gains/losses from the disposal of financial investments from the AFS portfolio) fell by CHF 48 million to CHF 30 million. The decline is largely attributable to the aforementioned Kairos item as well as the termination of the brand licensing agreement with GAM in March 2017.

Breakdown of assets under management by currency

	31.12.2017	31.12.2016
USD	45%	45%
EUR	23%	22%
CHF	10%	11%
GBP	4%	4%
HKD	4%	3%
SGD	2%	2%
RUB	1%	1%
CAD	1%	1%
Other	10%	11%

Adjusted operating expenses increased by 13% to CHF 2,264 million. In 2016, however, operating expenses included a benefit of CHF 63 million resulting from an amendment of the Swiss pension plan. Excluding this impact, the year-on-year increase in operating expenses was 9%.

At 6,292 full-time equivalents (FTEs), personnel rose by 4%, or 266 FTEs – and the monthly average number of employees increased by 6% to 6,206. Following the very significant investments in RM hiring in 2016, the focus in 2017 was shifted towards a more normalised hiring pace and to improving the quality and capacity of client-facing personnel. In 2017, the Group further introduced a new framework for its front-office organisation, with dedicated market and team leadership roles. As a consequence, 28 RMs moved into new positions and are no longer classified as RMs. As a consequence, and in combination with the net result of continued active hiring and ongoing performance-driven resource management, the number of RMs grew by 1%, or 13 FTEs, to 1,396. AuM per RM climbed by 14% to CHF 278 million.

Adjusted *personnel expenses* grew to CHF 1,549 million, a rise of 18%. Excluding the pension fund-related benefit of CHF 63 million in 2016, the increase in adjusted personnel expenses was 12%.

Adjusted *general expenses* went up by 2% to CHF 626 million, as the ongoing investments in the core banking platforms and the costs indirectly caused by higher staff levels were partly offset by a CHF 20 million decline in valuation allowances, provisions and losses.

Adjusted depreciation increased by 12% to CHF 42 million and *adjusted amortisation* by 26% to CHF 46 million. The growth in adjusted amortisation mainly reflects the rise in IT-related investments in recent years.

ASSETS UNDER MANAGEMENT

	31.12.2017 CHF bn	31.12.2016 CHF bn	Change %
Assets under management	**388.4**	336.2	15.5
Change through net new money	*22.2*	*11.9*	-
Change through market and currency impacts	*35.9*	*13.4*	-
Change through acquisition	*0.4*	*11.3*	-
Change through divestment	*-0.1*	*-0.1*	-
Change through other effects	*-6.1*[1]	-	-
Average assets under management	**362.5**	313.1	15.8

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

As a result, the adjusted *cost/income ratio*[1] was 69.0%. This compares to 68.9% in 2016, or 72.0% excluding the Kairos- and pension fund-related items. The underlying year-on-year improvement was partly attributable to the incremental revenue benefits from the RM hiring in 2016 and 2017, as well as the strong revenue contribution from Kairos.

Adjusted *profit before taxes* rose by 17% year on year to CHF 989 million. Excluding the Kairos- and pension fund-related items (together CHF 101 million) in 2016, the increase was 32%. The adjusted pre-tax margin was 27.3 bp. The related income taxes were CHF 183 million, representing a tax rate of 18.5%, up from 16.8% in 2016. The increase in the tax rate was largely driven by an increased profit contribution from Italian-based Kairos.

Adjusted net profit for the Group[2] grew by 14% to CHF 806 million. After considering adjusted non-controlling interests of CHF 13 million, adjusted net profit attributable to shareholders of Julius Baer Group Ltd. was CHF 793 million, and adjusted EPS attributable to shareholders of Julius Baer Group Ltd. CHF 3.66, both up 13% year on year.

As in previous years, in the analysis and discussion of the results in the Business Review, adjusted operating expenses exclude integration and restructuring expenses (CHF 30 million, versus CHF 29 million in 2016) as well as the amortisation of intangible assets related to acquisitions (CHF 72 million, versus CHF 66 million in 2016). Including these items, as presented in the IFRS results in the Group's Consolidated Financial Statements 2017, net profit improved by 15% to CHF 716 million. After considering non-controlling interests of CHF 11 million, the IFRS net profit attributable to shareholders of Julius Baer Group Ltd. rose to CHF 705 million and EPS to CHF 3.25, both up 14% year-on-year.

Excluding the Kairos- and pension fund-related items (together CHF 88 million net of taxes) from 2016 operating income and expenses, adjusted net profit for the Group rose by 30% and IFRS net profit attributable to shareholders by 33%.

[1] Calculated using adjusted operating expenses, excluding valuation allowances, provisions and losses.
[2] Cf. footnote 1 to the table on page 5

Balance sheet and capital developments
Total assets increased by CHF 2 billion, or 2%, to CHF 98 billion at the end of 2017. The total loan book grew by CHF 8 billion, or 21%, to CHF 47 billion (comprising CHF 37 billion of Lombard loans and CHF 10 billion of mortgages). As clients invested a higher proportion of AuM into non-cash positions, deposits rose only marginally to CHF 68 billion, resulting in a loan-deposit ratio of 69% (end of 2016 57%). Following this development, the Group's cash holdings and the AFS portfolio were reduced by 20% and 33% respectively. Total equity attributable to shareholders of Julius Baer Group Ltd. increased by CHF 0.5 billion, or 9%, to CHF 5.8 billion.

On a Basel III fully applied basis, total capital amounted to CHF 4.2 billion (Basel III phase-in CHF 4.3 billion), of which CHF 2.6 billion CET1 capital (phase-in CHF 3.3 billion). With risk-weighted assets declining to CHF 19.6 billion, this resulted in an increase in the fully applied *BIS total capital ratio* from 16.4% to 21.2% (phase-in 22.0%) and an improvement in the fully applied *BIS CET1 capital ratio* from 10.6% to 13.5% (phase-in 16.7%). At these levels, the total capital ratio and the CET1 ratio are well above the Group's own floors of 15% and 11%, and significantly in excess of the regulatory minimums of 12.2% and 8%, respectively.

'Our Group's capital position remained very healthy, with capital ratios well above the Group's own floors and significantly in excess of the regulatory minimums.'

Breakdown of assets under management by asset mix

	31.12.2017	31.12.2016
Equities	28%	27%
Investment funds	26%	24%
Bonds/convertibles	19%	19%
Client deposits	18%	20%[1]
Structured products	5%	5%
Money market instruments	3%	3%[1]
Other	1%	2%

[1] Reversal of a restatement

CONSOLIDATED BALANCE SHEET

	31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *%*
Assets			
Due from banks	8,308.9	11,389.8	-27.0
Loans to customers[1]	46,623.7	38,419.0	21.4
Trading assets	12,751.8	7,660.7	66.5
Financial investments available-for-sale	12,246.5	18,266.6	-33.0
Goodwill and other intangible assets	2,872.4	2,834.3	1.3
Other assets	15,114.4	17,636.9	-14.3
Total assets	**97,917.6**	96,207.2	1.8
Liabilities and equity			
Due to banks	7,209.5	10,076.8	-28.5
Deposits from customers	67,636.8	67,495.2	0.2
Financial liabilities designated at fair value	11,836.7	8,444.4	40.2
Other liabilities	5,380.5	4,836.9	11.2
Total liabilities	92,063.6	90,853.4	1.3
Equity attributable to shareholders of Julius Baer Group Ltd.	5,824.5	5,330.2	9.3
Non-controlling interests	29.5	23.6	-
Total equity	5,854.0	5,353.9	9.3
Total liabilities and equity	**97,917.6**	96,207.2	1.8
Key performance ratios			
Loan-to-deposit ratio	69%	57%	-
Book value per share outstanding (CHF)[2]	27.3	25.0	9.1
Return on tangible equity (ROTE)[3]	29.7%	28.2%	-
BIS statistics			
Risk-weighted assets	**19,576.0**	21,001.8	-6.8
BIS total capital	**4,298.5**	3,667.2	17.2
BIS total capital ratio	**22.0%**	17.5%	-
BIS CET1 capital ratio	**16.7%**	16.4%	-

[1] Mostly Lombard lending and mortgages to clients
[2] Based on shareholders' equity
[3] Adjusted net profit attributable to shareholders/(half-yearly) average shareholders' equity less goodwill and other intangible assets

BUSINESS DEVELOPMENT IN 2017

A synchronised global economic upturn and favourable financial markets provided an ideal backdrop to further grow our business. Timely and tailored information and advice, delivered also through a steadily growing number of digital channels, provided our clients with the insight needed for their investment decisions. The further roll-out of our holistic advisory approach *Julius Baer – Your Wealth* in 2018 will complement a series of initiatives to ensure industry leadership.

Our Group's strategy is built around three principles: delivering a best-in-class wealth management experience to our clients, being the most admired and respected firm in our sector and pursuing sustainable profitability. These principles are also guiding multiple efforts throughout our Group, designed to ensure industry leadership in the world of tomorrow.

Technology runs like a thread through most of our ongoing projects, given it is an important enabler to increase efficiency, improve client experience and reduce complexity. One of the key initiatives is the multi-year project to upgrade and globally harmonise Julius Baer's core banking platforms around the world. The project, based on the Temenos T24 core banking software, is currently implemented in the two Asian booking centres of Singapore and Hong Kong, laying the operational and technical foundation for the Group's continued growth in the region. To ensure a gradual increase of platform stability and maturity, and to reduce overall project risk, the go-live approach in Asia is structured in three stages. With stages one and two having been successfully implemented in 2017, the project now focuses on achieving full operational readiness in 2018.

With the successful integration of the T24 platform of Bank Julius Baer Luxembourg S.A. into the global IT environment of the Group, a major step in establishing this location as Julius Baer's European hub in addition to Switzerland and Germany has been achieved. All client relationships managed out of the advisory locations of Luxembourg, Madrid, Amsterdam and Dublin are now booked in Luxembourg, with clients booked in Monaco and Nassau to follow in 2018.

We also continued to improve our clients' digital service experience. Following the successful launch of the Julius Baer Mobile Banking App in February 2017, further enhancements were implemented during the year. The app serves as the gateway to log in into our growing e-banking offering. In the second half of 2017, we appointed a Chief Digital Officer. The aim of creating this new role is to integrate all our digitalisation initiatives across the Group and consolidate the various deliverables into one coherent offering for our clients.

We are supporting three FinTech start-ups in their effort to run a pilot project as part of our cooperation with Switzerland's *F10 FinTech Incubator and Accelerator Association*. The insights gained help us to evaluate the integration of FinTech solutions into our value chain.

Julius Baer – Your Wealth is our promise to systematically derive the appropriate financial solutions for each client based on their unique situation, encompassing wealth planning, wealth management and wealth financing. The full toolset required for our relationship managers to deliver on this promise in a consistent and efficient fashion will be rolled out first in our Swiss home market in the coming months (see page 15). This integrated approach to providing advisory services will ensure a consistent client experience as well as compliance with local rules and regulations primarily focusing on customer protection.

Amid the movement towards international tax transparency, we maintained a constructive, proactive stance with our clients, informing them about developments and opportunities to solve potentially outstanding tax issues.

We are pushing forward with the Group-wide alignment of our compliance, risk management and key business processes. Related compliance training efforts were rolled out to the entire Group, with a particular focus on client-facing staff, including mandatory certification programmes and corresponding refresher courses.

Our commitment to pioneer new sustainable technologies is also expressed by our sponsorship engagement as the Global Partner of the electric street racing series FIA Formula E Championship, which we extended at the beginning of May 2017 until the end of the 2020/21 season. In February 2017, Julius Baer's partnership with Formula E was named the *Best Sponsorship of the Year* at the *Swiss Sponsorship Awards*.

At the beginning of July 2017, Julius Baer was recognised as the *World's Best Bank for Wealth Management 2017*. This important distinction from the *Euromoney Awards for Excellence* mirrors the strong position Julius Baer has achieved around the globe through successful implementation of its growth strategy over the past decade, driven by its business model focused on pure private banking and its client-centric service excellence.

Julius Baer Group Ltd.

Board of Directors
Daniel J. Sauter, Chairman

Chief Executive Officer
Bernhard Hodler

Chief Financial Officer	**Chief Operating Officer**	**Chief Risk Officer a.i.**[1]	**Chief Communications Officer**	**General Counsel**
Dieter A. Enkelmann	Nic Dreckmann	Christoph Hiestand	Larissa Alghisi Rubner	Christoph Hiestand

Executive Board

[1] Oliver Bartholet will assume this function effective 1 March 2018

GLOBAL PRESENCE

Europe

Switzerland

Our locations in other parts of the world

- Location
- Booking centre
- GPS, a fully owned subsidiary
- NSC Asesores, strategic minority participation of 40%
- Kairos Julius Baer SIM S.p.A., strategic participation of 80% in its holding company (increased to 100% at the beginning of 2018)
  Julius Baer is present in Milan with Julius Baer Fiduciaria S.p.A.

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

OUR ACTIVITIES WITH CLIENTS

Switzerland
As the leading Swiss private banking group, we believe we are perfectly positioned to progressively expand our share in our home market of Switzerland. Its fragmentation and diversity still offer considerable growth potential.

In 2017, we defined a new market strategy, with a comprehensive offering targeted at ultra-high net worth individuals (UHNWI), high net worth individuals (HNWI) and intermediaries. This offering takes into account the specific preferences of our Switzerland-based clients, such as risk appetite, home bias and pension provisioning, but also considers aspects related to their specific profession, succession dynamics and gender. For example, we published a joint study with Campden Wealth that portrays a number of women in Switzerland and their approach to wealth, providing a deeper understanding of the requirements of female clients.

With our 14 locations across the country as well as our suite of fast growing digital channels, we continued to benefit from our exceptional client proximity. Our focus in 2018 will be the promotion of *Julius Baer – Your Wealth*, the Group's strategic approach to serving clients in a holistic way through all stages of their lives. The final toolset of *Your Wealth* will be rolled out to all our Swiss clients. It builds on the new set of advisory service models Advice Basic, Advice Premium and Advice Advanced, to which all our advisory-oriented clients were successfully migrated by the end of 2017. We have further expedited the certification of our Switzerland-based relationship managers (RMs) according to ISO-17024. This process was practically completed by the end of 2017, with essentially all RMs meeting the standards as Certified Wealth Management Advisors.

In mid-December 2017 we were recognised as *Outstanding Private Bank – Switzerland – Domestic players* by the renowned *Private Banker International* magazine for the second consecutive year.

On the back of the favourable financial market performance, assets under management increased in 2017. The structural adjustment of client relationships to our strategic client segmentation weighed on net new money inflows. Clients showed increased risk appetite overall, leading to higher transaction-based income. Together with higher asset-based income, overall revenues improved year on year.

Europe
Europe is an important core region for our Group. Our booking centre in Luxembourg, added as part of our acquisition of Commerzbank International S.A. Luxembourg in 2016, was successfully integrated into the Group's global IT environment in 2017 and will serve as the European hub for Julius Baer in addition to Switzerland and Germany. This step enables us to broaden and streamline the offering for clients of our advisory locations in Madrid, Amsterdam, Luxembourg and Dublin, in line with the latest regulatory requirements, with clients booked in Monaco and Nassau to follow in 2018.

The booking platform in ***Luxembourg*** and the growing product offering it supports allow for a much broadened and expanding set of business opportunities both for our enlarged local franchise and the entire region. The international scope of our offering is a key differentiating factor for private banking clients as well as intermediaries. This investment expertise is cast into client-specific solutions and tailored to local market preferences. In the course of the year, client activity and transaction volumes picked up. Given the generally high equity affinity of clients, however, we saw increased reluctance towards markets and their valuation levels. Revenues grew in tune with rising assets under management.

Germany is one of the most attractive wealth management markets in Europe. Despite being fragmented and mature, the German market continues to show sustainable growth rates. Against a backdrop of ongoing industry consolidation, our local focus on pure private banking, outstanding reputation, solid financial foundation and excellent client proximity and service offered through our network of eight locations across the country are important factors in retaining and winning clients. In 2017, we were able to broaden our base of experienced RMs, leveraging our strong market standing built over the past years.

Frankfurt-based Bank Julius Bär Europe AG's locally booked private client business showed strong momentum in 2017. Its product offering was further broadened to include specialised investment products and solutions. On the back of higher asset levels and revenues, profitability improved further.

For ***Spain***, we introduced an integrated market coverage approach that enables us to serve clients not only locally in Madrid but also from Luxembourg and Switzerland. In 2017, we successfully accelerated the hiring of experienced RMs, a process that is expected to continue well into 2018.

On the back of last year's expansion of our RM base in ***Monaco***, net new money inflows were again robust. The significantly higher asset base and increased client activity resulted in rising revenues. We aim to leverage the wealth management and booking centre capabilities of this important Group location, primarily for the benefit of our growing local client base but also for private clients and intermediaries from selected markets in Eastern Europe, the Middle East and Latin America.

Italy is served from different Swiss locations and locally via the specialised wealth and asset manager Kairos. Following the conclusion of Italy's voluntary disclosure programme 2016/17 at the end of September 2017, business momentum started to normalise. Against this background, revenues and profitability held up well. The country's move to tax transparency helped Julius Baer Fiduciaria S.p.A. in Milan to significantly increase the assets they administer, making it one of the largest fiduciary companies in the country. At the beginning of 2018, the Group increased its participation in Kairos from 80% to 100%, thus further solidifying the successful cooperation established in 2013. All major Kairos investment funds performed strongly in 2017. As a result, the company and its funds won a number of prestigious accolades, including the *Pan-European Hedge Fund 2017* award by *Extel* and *Best Overall Asset Management Group* by *Hedge Funds Review* at their *European Performance Awards 2017*. The increase in asset volume managed by Kairos materialised also on the back to the intensified cooperation with Julius Baer as well as the launch of several new funds.

Both our local business in the ***United Kingdom*** and our business with UK-related international clients served from different Group locations showed good momentum in 2017. Despite persistent political uncertainty, client activity continually increased with structured products particularly in demand. The important discretionary portfolio management function achieved outstanding performance, also relative to peers, strongly supporting the rising propensity of clients towards value-added services, including wealth planning and discretionary services. On the back of higher assets under management and strict cost management, profitability further improved.

The selective reinforcement of teams serving UK clients from international locations was followed by our announcement in August 2017 of the establishment of new offices in Manchester, Leeds and Edinburgh. The new offices are expected to be fully operational in the first half of 2018. A substantial number of RMs either have already joined or will start in the coming months, targeting those two thirds of the UK's wealth which is held by individuals outside London and the south-east. Our business in the smaller yet dynamic wealth management market of ***Ireland*** showed strong momentum. The Dublin-based unit relocated to new offices in the city centre in autumn.

Russia, Central & Eastern Europe

For the first time in many years, the economic outlook for a number of the most important countries of the region is positive. This is one of many findings of the inaugural *Julius Baer Wealth Report: Russia*, covering Russia, Kazakhstan and Azerbaijan and published at the end of June 2017.

Given continued geopolitical, regulatory and economic uncertainties, however, the business environment remained demanding during the year. On the back of our strongly expanding base of RMs, we achieved solid net new money inflows. Revenues benefitted from higher asset levels while margins held up well.

We view the longer-term potential for the region as intact. Complementing our office in Moscow, we serve this attractive region with a growing number of RMs from various Group locations.

In September 2017, Julius Baer was recognised as *Best Foreign Bank for Russian Millionaires* by *Forbes Russia* in its annual rating of Russian and foreign private banks.

Asia Pacific
Asia continues to feature many of the world's fastest growing countries for wealth creation and number of HNWI. On the back of a strong world economy, the ever increasing per capita income, the ascent of Millennials and the leading position in areas such as digitalisation will reinforce this region's position as the world's primary wealth management market over the coming years, as also outlined in the seventh edition of the *Julius Baer Wealth Report: Asia*, published in October 2017.

Julius Baer is one of the region's largest and most focused private banking providers. This makes us the first address for clients and intermediaries in search of a trusted advisor and puts us in an excellent position to take advantage of the region's growth in investable assets. Benefitting from last year's expansion of our base of experienced RMs, we achieved very strong net new money inflows. Client activity picked up considerably, contributing to rising revenues.

Julius Baer serves this diverse region from a number of locations, including Singapore, Hong Kong and India, making Asia the Group's second home market. We are currently focusing on five key markets to achieve organic growth: mainland China, Hong Kong, Indonesia, Singapore and India. Our Emerging Asia subregion, focusing on fast growing countries such as the Philippines and Thailand, developed very well.

OUR FOCUS: YOUR WEALTH

The only constant in life is change, which is why individual life planning should not be a one-off exercise. That is why Julius Baer has developed *Your Wealth* – a holistic approach to advising our clients at every stage of their lives. We put our clients at the centre of everything we do, which is why we ask the most important question: What matters to you?

By thoroughly analysing each client's individual life, business and investment objectives as well as their aspirations, a personal *Your Wealth Strategy* can be devised. This is a carefully tailored proposal on how to help our clients achieve their goals, taking their wealth planning, wealth management and wealth financing requirements into account.

Your Wealth enables Julius Baer to fully harness the Group's broad expertise for the benefit of our clients. Initially launched in 2015, the hitherto much broadened offering was successfully tested in a pilot phase during the second half of 2017. The extended toolset of *Your Wealth* is now ready to be rolled out. It will initially be launched in our home market of Switzerland during the first quarter of 2018, accompanied by an external media campaign. Other Julius Baer markets will follow in a staggered approach. We are therefore encouraging our existing and prospective clients worldwide to start thinking about how they might answer *Your Wealth*'s central question: What matters to you?

The regional Investment Management team continued to tailor Julius Baer's offering to meet local clients' rising propensity for value-added investment solutions both in the discretionary and advisory space. While we continue to invest in our base of experienced RMs, our hiring efforts have become more selective, accompanied by strict management based on RM performance.

At the *Private Banker International's Global Wealth Awards 2017*, Julius Baer won the *Outstanding Private Bank for Growth Strategy – M&A* award for the second consecutive year. The judging panel particularly highlighted the Bank's pure private banking focus and independent advisory stance. In addition, Julius Baer was named *Best Boutique Private Bank in Asia* for the eighth consecutive time by *The Asset*.

Our subsidiary in ***Japan***, Julius Baer Wealth Management Ltd., continued to invest in our business with Japanese clients, both internationally and locally. The presentation of the fourth *Julius Baer Wealth Report: Japan* in Tokyo was well received by guests and some of Japan's most influential business publications.

Julius Baer is one of the largest and best established foreign wealth managers in ***India.*** The domestic Indian market is covered from the five major cities of Mumbai, New Delhi, Kolkata, Chennai and Bangalore, and saw good business momentum in 2017. The local product and service offering was further broadened to include specialised equity and alternative investments, complemented by a new wealth planning unit. 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. On the back of our broadened RM base in Dubai, Zurich and Singapore, complemented by a new dedicated desk in Hong Kong, we realised very satisfying net new money inflows. The risk appetite of clients remained high, driving revenues and margin development.

Eastern Mediterranean, Middle East & Africa

Despite the challenging political environment, subdued economic expansion and ever-changing regulatory regimes, we were able to maintain good business momentum across the Eastern Mediterranean region as well as the markets we serve in the Middle East and Africa. On the back of an expanding base of experienced RMs and clients' growing risk appetite, we achieved strong net new money inflows while improving profitability.

We serve the region primarily from our expanding hub in Dubai and local offices in Beirut, Manama and Abu Dhabi as well as from a growing number of Group locations in Europe and Asia. Coverage includes the Middle Eastern markets, the Levant, Turkey and Greece.

In May 2017, Julius Baer's Abu Dhabi representative office was recognised as the *Best Private Banking Group 2017* by the *UAE Business Awards*, which are presented by the quarterly financial publication *MEA Markets*.

Julius Baer ranks among the top foreign wealth managers in ***Israel***. We serve this appealing yet highly competitive market from a number of Group locations and locally from our Tel Aviv office. Net new money inflows accelerated significantly during the year, contributing to higher assets under management. Despite clients' subdued risk appetite, revenues improved while productivity remained high. We continue to target Israel's significant wealth creation both domestically in a targeted fashion and via the global Israeli community, benefitting from our reputation as a focused Swiss wealth manager with a broad international setup.

Latin America
The local wealth management industry in Latin America continued to undergo a significant transformation in 2017. An increasing number of wealthy individuals seeking tax compliance within voluntary disclosure programmes, a challenging political environment and subpar economic growth are creating awareness and a greater need for professional wealth management.

Serving Latin American private clients and intermediaries both locally and increasingly from other key Group locations, we were able to accommodate both the emerging trend of clients seeking local investment solutions via our domestic platforms as well as the requirements for international asset diversification. As a result, net new money inflows continued to improve in 2017. This contributed to rising assets under management and supported profitability.

We intend to capture the potential of this promising region by expanding our presence either organically, by further broadening our base of experienced RMs, or by seeking opportunities to develop a strong domestic presence in selected markets via partnerships with local, well-established wealth managers that are a good fit to our culture and strategy.

In its first full year as a wholly owned subsidiary of our Group, GPS in Brazil continued to benefit from its strong competitive standing as one of the country's largest independent asset managers. Favourable markets and net new money inflows contributed both to rising assets under management and revenues. Popular among clients were specific Brazil- and Latin-America-oriented actively managed certificates, leveraging the strong know-how of GPS and of the cooperation partner NSC Asesores in Mexico. The latter firm, in which Julius Baer holds a 40% participation, showed very favourable performance in 2017. The roll-out of the new Julius Baer advisory service models is expected to have a positive impact on client activity.

Intermediaries business
Our business with intermediaries, i.e. external asset managers (EAMs) and external financial advisors (EFAs), continued to grow in 2017, with AuM reaching new heights towards the end of the year. The intermediaries business contributed significantly to the overall result of Julius Baer.

We were able to expand our business particularly across Europe and Asia. Our aim is to focus on a comparatively small number of key intermediaries who have the potential and ambition to grow and develop their business hand in hand with Julius Baer. We benefitted from inflows from Switzerland-based EAMs who focus on end clients domiciled in Europe and the emerging markets. Substantial inflows came from sophisticated institutional EAMs serving end clients in the upper HNWI and UHNWI segments. Another key growth driver was our booking centre Monaco, established only three years ago.

Keeping pace with the growing expectations for state-of-the-art, cutting-edge technology is both a necessity and distinguishing factor in this particular segment, fostering efficient collaboration and contributing to client retention. As a result of direct client feedback, we have substantially modernised our technology offering. For example, we have expanded our online solution *Baer®Online Intermediaries* to include new functionalities and features. We have also launched the new *FIX Connectivity Channel*, which allows intermediaries to deliver orders (ISIN-based securities) directly to Julius Baer from their internal systems.

In the period under review, we made immense progress with the development of the new franchise for intermediaries in Luxembourg, which saw its team further strengthened with experienced hires.

JULIUS BAER'S SCOPE OF INVESTMENT, ADVISORY AND EXECUTION COMPETENCE

The timely availability of investment views and recommendations as well as their skilful implementation in mandates and portfolios is ensured by our specialised units Investment Management (IM), Advisory Solutions (AS) and Markets, complemented by Global Custody.

Investment Management
IM is responsible for the disciplined and active management of client assets with the aim to achieve consistent risk-adjusted investment returns. Given the favourable market environment in 2017, Multi-Asset-Class Mandates achieved a clearly positive performance. In line with expectations, growth-oriented mandates delivered the best risk-adjusted performance. USD-based mandates benefitted from translation effects on those assets held in foreign currencies.

Over the past two years, IM has made significant progress in realigning its organisation in order to meet ever-evolving client needs. At a time when investors must have discipline and stamina as well as a profound knowledge of managing risks, client demand to delegate investment decisions is growing. IM therefore pays great attention to further developing its offering of discretionary investment solutions and enhancing its in-house managed fund solutions, across regions and in close collaboration with the Group's client-facing organisation.

IM is committed to further supporting Julius Baer's organic growth by strengthening our investment competence and focusing on productivity and efficiency gains at the same time.

Advisory Solutions
AS provides a comprehensive range of transparent and independent investment advisory and wealth planning services to the Julius Baer front units and their clients.

Following the successful implementation of the much enhanced Julius Baer Advisory Process in Switzerland, encompassing the new advisory service models Advice Basic, Advice Premium and Advice Advanced, we completed the roll-out for all clients on our Luxembourg booking platform in 2017.

Our new Integrated Advisory Platform went live in November 2017, supporting an integrated MIFID II-compliant, end-to-end advisory process for European Advisory locations. *Julius Baer – Your Wealth*, our holistic client advisory approach, was further broadened to seamlessly encompass wealth planning, wealth management and wealth financing. The extended toolset will be rolled out in Switzerland in 2018 (see page 15). Providing a steady flow of investment opportunities to clients is an integral part of the Julius Baer Advisory Process. Related client-friendly publications and services can be accessed by clients through various channels, including the Investment Insights App. In September 2017, we launched a Responsible Investment campaign showcasing the benefits of our philosophy and featuring directly investable solutions.

Distribution ensures that the Group's combined advisory competence reaches relationship managers (RMs) and clients in a most effective manner. In this spirit, 2017 saw the launch of several Spotlight Ideas like 'Asset Allocation Matters', 'Next Generation' and 'Responsible Investment'. Our in-house investment partners helped our RMs to translate these campaign ideas into investment solutions for our clients. The unit also strengthened its product platform with private equity solutions, thematic actively managed certificates (AMCs) as well as investment funds including those of the Group's subsidiary Kairos. Both our Advice Advanced and Advice Premium Mandates, which are offered to clients seeking financial advice from our experienced and dedicated investment advisors and investment partners, saw a substantial increase in the number of accounts and related assets under management.

Our global ***Wealth Planning*** unit remains at the forefront of guiding clients through important turns in life such as retirement, relocation and the succession of wealth from one generation to the next. We have grown our teams in the United Kingdom, Switzerland, the Middle East and Asia to enhance local expertise and client proximity. Of equal importance is the development of a global network of external wealth planning specialists who complement our internal know-how. With the launch of our upgraded platform to manage our comprehensive

INVESTMENT RESEARCH: 2017 IN REVIEW

What happened? What went right, what went wrong?
Of course, a lot went wrong last year. Actually, it is far harder to assess what went right, since things that go right usually do not hit the headlines. To assess what moved investors most, we tend to look at the 'most read' section in the newswires. The ten most read stories in 2017 were all about terrorist attacks, natural catastrophes and news out of the White House. Surprisingly, North Korea and tensions in Asia did not make it.

Pinpointing what went right from an investment analyst's perspective is difficult indeed, and we have to rely fully on our memory, which is a treacherous tool as we all know – and forensic psychiatrists all the more. Here is a subjective list: Number one was the economy, which globally expanded with a breadth and depth not seen in a long time. And corporate earnings followed suit – especially in Europe, where into the second half of the year there were no material downgrades in earnings expectations but rather the opposite – for the first time in seven years. Other things that were well received by financial markets were election outcomes in Europe, the political power transition in China and monetary policy. Indeed, 2017 was a market-friendly year: US stock indices and even German stocks hit new all-time highs. Emerging markets made a comeback after being in dire straits for years. And the same goes for global financials.

What did not happen at all
There was yet again no break-up of the European Union or the euro. As for Asia, geopolitical tensions increased vastly during the summer but did not end in a full-blown military conflict. And the patience of investors with the new US administration was stretched time and again, but there have been no major disruptions in the political system so far.

Investment cases – going with the reflation flow, but keeping some structural growth cases
Given the uncertainty, our Research team preferred to give the reflation trade the benefit of the doubt, which was a tough case in the first half of 2017. In the second half, it recouped some of the lost territory though. Investors were advised to hold some reflation beneficiaries then, such as inflation-linked government bonds, Asian emerging market stocks and the Canadian dollar. These assets were ideally balanced, however, with structural holdings such as healthcare stocks, emerging market hard-currency debt and technology stocks. On a different note, there is not only inflation but also hyperinflation – in crypto currencies, for example. In our view, bitcoin is a replay of previous bubbles and no real option for financial investors.

offering, we have been able to scale our business even further and enhance our digital capabilities. 2017 was another year of increased demand for Wealth Planning's services, reflected by the all-time high in the number of clients we served, as well as revenue. While maintaining a strong focus on efficiency and product innovation, we have continued to refine and develop our business model, and ultimately, ensure the best possible outcomes for our clients.

Serving our second home market, ***Advisory Solutions Asia*** further broadened and refined its service offering in 2017. Assets under management in Advisory Mandates reached new record highs. Wealth Planning, which is one of the key drivers of net new money, also saw strong growth during the year. Numerous thought leadership events provided the opportunity to showcase our high-conviction investment views in the form of our Market Outlook Series and to connect RMs and clients with the best-in-class fund managers at our popular Alpha Conference. Our offering in the funds space continued to expand with launches of private equity funds and Julius Baer issued AMCs. Our flagship publication, *Julius Baer Wealth Report: Asia*, saw its inaugural multimedia launch across the Bank's various social media platforms in October 2017, adding to the growing recognition of the Julius Baer brand in the region.

Markets

The Markets unit caters to the Group's private banking clients and serves direct and institutional client segments with trade execution, product structuring and advisory services across all asset classes.

Markets manages the *Julius Baer open product platform* in structured products and its issuing activities. Together with Advisory Solutions, it is the central unit for the distribution of financial solutions. The platforms include *Markets Toolbox*, a real-time platform for currency and structured products for RMs and external asset managers (EAMs), as well as *Market Link*, an Internet-based mobile real-time trading platform.

Continued investments in the *Markets Toolbox*, which acts as the main digital distribution platform for structured products, supported the strong growth in these important investment instruments. The *Markets Toolbox* counts more than 5,000 users, including EAMs and third-party banks.

The global financial markets were characterised in 2017 by the persistently low volatility environment and a continuously growing risk appetite from investors. Specifically after the French elections, we observed a strong increase in structured product volumes across all underlyings. Interest rate products particularly contributed to the robust nominal growth of structured products issued by Julius Baer, as reflected in the corresponding item in the Group's balance sheet.

Global Custody

As a leading 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.

In response to the changing business environment and requirements of different target groups, an enhanced service offering has been rolled out to institutional clients, investment funds, UHNWIs and family offices. The business covers the full range of country-specific expertise and client-oriented solutions comprising a wide variety of products and services, including custody, 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.

OUR EMPLOYEES

The Group's employee base grew to 6,292 FTEs (full-time equivalents) at the end of December 2017, an increase of 266 or 4% compared with year-end 2016.

Expanding our base of experienced relationship managers (RMs) remains an important element of our strategy to achieve sustainable, profitable growth. In 2017, the Group was again successful in attracting a substantial number of additional senior RMs. This increase was countered by our ongoing performance-based review process of existing RMs and by the functional shift to a pure management role for a number of RMs heading one or several teams, as a result of which these individuals no longer show up in the RM count (see below). Despite this, the net number of RMs increased by 13 to 1,396 since the end of 2016.

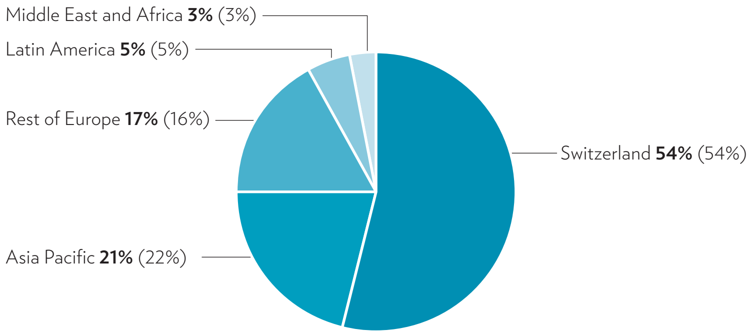
Private banking is a people's business, making our employees the Group's most important asset. Our Human Resources function (HR) thus plays a vital part in shaping our future. HR's mandate is to further develop our employee value proposition rooted in an inspiring, distinct Julius Baer culture. Building on our strong leadership principles, the ultimate goal is to further increase Julius Baer's attractiveness as an employer of choice in wealth management as well as facilitating the change management process throughout the Group.

In 2017, we introduced a new framework for our front organisation, with dedicated team leadership roles. This move is designed to free up RM capacity to focus on client requirements. At the same time, the model enables front office teams to work more effectively in pursuing business development opportunities, managing key clients, developing talents and addressing regulatory complexity. 2017, an additional 28 RMs have been appointed to client-facing management roles, with their clients being handed over to other RMs.

Julius Baer recognises the importance of diversity and its beneficial contribution to the company's culture and business performance. Our rapid international expansion in recent years has brought a significant increase in the ethnic diversity of our employees. In parallel, the gender balance has gradually improved, with women accounting for over 40% of our total workforce today, a typical ratio in the financial industry. Though the share of women with a rank of Director or above has also increased significantly, from 20% at the end of 2009 to 31% at year-end 2017, it still seems to be comparatively harder for women to move up the ranks. To counter this, we broadened our internal mentoring framework at the start of 2017 through a programme targeting highly motivated female talents. The first group comprises 53 participants. A series of coaching meetings spread over an entire year with a high-level dedicated mentor helps them hone skills, self-management abilities and leadership qualities, and should result in improved career prospects.

Julius Baer employees (FTE) by geography as at 31 December 2017

(31 December 2016)



OUR COMMITMENT

At Julius Baer, we believe that our responsibility as a company encompasses all facets of sustainability: economic, social and environmental. This means fostering successful relationships with our clients for many generations to come, prudently managing our company for the long term to generate sustainable value for our shareholders, ensuring professional development of our employees and looking beyond daily business to be an active member of society in all our endeavours.

Based on Julius Baer's core values of *Care*, *Passion* and *Excellence*, the daily activities of our company are governed by a set of guiding principles and professional standards for business conduct:

- We observe the laws and regulations of countries we operate in and even go beyond what is required, be it in our business activities, relations with our employees or engagement in the local communities.
- We keep the interests of our clients at the centre of our business activities, ensuring excellent service and performance to meet their needs.
- We are the financial services employer of choice for top talent, treating each other with respect, and provide an environment conducive to professional growth and empowerment.
- We promote transparency in all interactions with our diverse stakeholder groups.
- We respect human rights in all our endeavours and take measures to minimise the ecological footprint of Julius Baer.

These principles form the core of Julius Baer's coordinated and holistic management framework for sustainability issues. Details of our various activities, including qualitative developments and key quantitative indicators, can be found in the comprehensive *Corporate Sustainability Report*, which is available at www.juliusbaer.com/cosreport

As part of our overall Corporate Sustainability framework, special emphasis rests on our engagement in the local communities in which we operate:

- The *Julius Baer Foundation* is the formal charitable arm of the Julius Baer Group. In cooperation with partner organisations around the world, it focuses on the three core areas of vocational training for youths, recycling PLUS projects for the environment and initiatives aiming to diminish wealth inequality. More information is available at www.juliusbaer.com/foundation
- *Julius Baer Cares* encompasses bottom-up community engagement driven by employees in a number of Group locations. In parallel to the efforts of the Foundation, their individual activities share the same focus of *Caring for others* and *Caring for the environment* in their local communities.
- The *Julius Baer Art Collection* specialises in works by contemporary Swiss artists as well as by artists living in Switzerland (www.juliusbaer.com/artcollection). Julius Baer's approach to art acquisition promotes the preservation of visual art in Switzerland. Today, the collection encompasses over 5,000 works.
- A wide spectrum of cultural and other activities is supported through corporate sponsorship (www.juliusbaer.com/sponsoring).

In our home market of Switzerland, a dedicated framework actively encourages staff to assume roles in political bodies in the militia system of politics or in social areas alongside their regular work.

JULIUS BAER FOUNDATION TO FOCUS ON VOCATIONAL TRAINING, RECYCLING PLUS AND WEALTH INEQUALITY

The Julius Baer Foundation, the non-profit grant foundation of the Julius Baer Group, has strived to make a meaningful societal impact for more than 50 years. The Foundation's reach has expanded hand in hand with the growth of the Group and so has its focus.

Following a recent strategic repositioning, today the Foundation works together with partner organisations worldwide and concentrates on the following three core areas:

- *Vocational training*: providing guidance to underprivileged youths through solid vocational training that helps them to become self-reliant and responsible adults so they may independently secure their livelihood and positively shape their environment.
- *Recycling PLUS*: promoting the sustainable use of resources by supporting visionary projects that add a PLUS to simple recycling by keeping reusable material within a circular economy and efficiently filtering out harmful substances.
- *Wealth inequality*: systematically encouraging voluntary exchange between various social classes characterised by inequality of means and opportunities by supporting and investing in inspiring initiatives and projects that create added value for the local communities.

Thanks to its professional organisation with strict governance principles and a transparent information policy, the Foundation is a well-regarded, credible partner for both the organisations it cooperates with and the donors who provide financial support. In order to expand the impact of the Foundation, the base of donors will be broadened to include Julius Baer clients, employees and suppliers as well as the interested public.

More information about the Foundation's areas of expertise and how to donate, as well as on current projects such as BagoSphere in the Philippines pictured above (through our partnership with elea Foundation for Ethics in Globalization), is available at www.juliusbaer.com/foundation.

IMPORTANT DATES

Publication of Annual Report 2017: 19 March 2018
Annual General Meeting: 11 April 2018
Publication of Interim Management Statement: 23 May 2018
Publication of 2018 half-year results: 23 July 2018

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

Once published, the Annual Report 2017 of Julius Baer Group Ltd. containing the audited IFRS financial accounts of the Julius Baer Group for the year 2017 is available at www.juliusbaer.com.

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The Julius Baer Group is present in more than 50 locations worldwide,
including Zurich (Head Office), Dubai, Frankfurt, Geneva, Hong Kong, London, Luxembourg,
Milan, Monaco, Montevideo, Moscow, Mumbai, Singapore and Tokyo.

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CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2017 (AUDITED)

Supporting material for the full-year results presentation of 31 January 2018.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Note	**2017** CHF m	2016 CHF m	Change %
Interest and dividend income		**1,195.3**	1,043.9	14.5
Interest expense		**207.5**	166.8	24.4
Net interest and dividend income	1	**987.8**	877.1	12.6
Commission and fee income		**2,172.1**	1,771.1	22.6
Commission expense		**241.5**	206.2	17.1
Net commission and fee income	2	**1,930.6**	1,564.9	23.4
Net trading income	3	**303.6**	332.5	-8.7
Other ordinary results	4	**30.3**	77.9	-61.1
Operating income		**3,252.2**	2,852.4	14.0
Personnel expenses	5	**1,555.7**	1,335.9	16.5
General expenses	6	**649.7**	623.2	4.2
Depreciation of property and equipment	12	**42.3**	37.6	12.3
Amortisation of customer relationships	12	**72.7**	68.5	6.2
Amortisation and impairment of other intangible assets	12	**45.4**	34.6	31.2
Operating expenses		**2,365.8**	2,099.8	12.7
Profit before taxes		**886.5**	752.6	17.8
Income taxes	7	**170.6**	130.4	30.8
Net profit		**715.9**	622.1	15.1
Attributable to:				
Shareholders of Julius Baer Group Ltd.		**704.8**	619.4	13.8
Non-controlling interests		**11.1**	2.7	306.8
		715.9	622.1	15.1

	Note	**2017** CHF	2016 CHF	Change %
Share information				
Basic earnings per share (EPS)	8	**3.25**	2.85	14.1
Diluted earnings per share (EPS)	8	**3.25**	2.84	14.3
Dividend proposal 2017 and dividend 2016		**1.40**	1.20	16.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017 *CHF m*	2016 *CHF m*
Net profit recognised in the income statement	**715.9**	622.1
Other comprehensive income (net of taxes):		
Items that may be reclassified to the income statement		
Net unrealised gains/(losses) on financial investments available-for-sale	**3.3**	19.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	**6.4**	7.8
Translation differences	**30.1**	22.8
Realised (gains)/losses on translation differences reclassified to the income statement	**-**	-0.0
Items that will not be reclassified to the income statement		
Remeasurement of defined benefit obligation	**2.7**	18.9
Other comprehensive income	**42.5**	69.2
Total comprehensive income	**758.4**	691.3
Attributable to:		
Shareholders of Julius Baer Group Ltd.	**746.5**	685.7
Non-controlling interests	**11.9**	5.6
	758.4	691.3

CONSOLIDATED BALANCE SHEET

	Note	**31.12.2017** *CHF m*	31.12.2016 *CHF m*
Assets			
Cash		**10,862.9**	13,599.5
Due from banks	9	**8,308.9**	11,389.8
Loans	9	**46,623.7**	38,419.0
Trading assets	10	**12,751.8**	7,660.7
Derivative financial instruments	24	**1,962.7**	2,690.9
Financial assets designated at fair value	25	**277.3**	252.4
Financial investments available-for-sale	11	**12,246.5**	18,266.6
Investments in associates	26	**28.2**	29.4
Property and equipment	12	**356.6**	373.8
Goodwill and other intangible assets	12	**2,872.4**	2,834.3
Accrued income and prepaid expenses		**354.3**	327.2
Deferred tax assets	17	**28.8**	28.8
Other assets		**1,243.5**	335.0
Total assets		**97,917.6**	96,207.2

	Note	**31.12.2017** CHF m	31.12.2016 CHF m
Liabilities and equity			
Due to banks		**7,209.5**	10,076.8
Due to customers		**67,636.8**	67,495.2
Trading liabilities	10	**135.8**	159.0
Derivative financial instruments	24	**2,059.2**	2,285.3
Financial liabilities designated at fair value	15	**11,836.7**	8,444.4
Debt issued	16	**1,777.0**	1,213.5
Accrued expenses and deferred income		**728.2**	620.3
Current tax liabilities		**215.9**	123.0
Deferred tax liabilities	17	**59.9**	77.8
Provisions	18	**44.9**	23.0
Other liabilities		**359.6**	335.1
Total liabilities		**92,063.6**	90,853.4
Share capital	19	**4.5**	4.5
Retained earnings		**6,306.0**	5,840.4
Other components of equity		**-209.9**	-251.6
Treasury shares		**-276.1**	-263.1
Equity attributable to shareholders of Julius Baer Group Ltd.		**5,824.5**	5,330.2
Non-controlling interests		**29.5**	23.6
Total equity		**5,854.0**	5,353.9
Total liabilities and equity		**97,917.6**	96,207.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings[1] CHF m
At 1 January 2016	4.5	5,467.8
Net profit	-	619.4
Items that may be reclassified to the income statement	-	-
Items that will not be reclassified to the income statement	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	619.4
Changes in non-controlling interests	-	-23.4[2]
Dividends	-	-246.2
Dividend income on own shares	-	6.2
Share-based payments expensed for the year	-	70.8
Share-based payments vested	-	-49.4
Changes in derivatives on own shares	-	-0.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-4.5
At 31 December 2016	4.5	5,840.4

At 1 January 2017	**4.5**	**5,840.4**
Net profit	**-**	**704.8**
Items that may be reclassified to the income statement	**-**	**-**
Items that will not be reclassified to the income statement	**-**	**-**
Total other comprehensive income	**-**	**-**
Total comprehensive income	**-**	**704.8**
Dividends	**-**	**-268.6**
Dividend income on own shares	**-**	**7.0**
Share-based payments expensed for the year	**-**	**82.4**
Share-based payments vested	**-**	**-81.2**
Changes in derivatives on own shares	**-**	**7.7**
Acquisitions of own shares	**-**	**-**
Disposals of own shares	**-**	**13.4**
At 31 December 2017	**4.5**	**6,306.0**

[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] Related to the acquisition of GPS Investimentos Financeiros e Participações S.A. and Julius Bär Wealth Management AG.
[3] Related to the acquisition of GPS Investimentos Financeiros e Participações S.A., Julius Bär Wealth Management AG and Kairos Investment Management SpA.

Other components of equity						
Financial investments available-for-sale, net of taxes *CHF m*	Remeasurement of defined benefit obligation *CHF m*	Translation differences *CHF m*	Treasury shares *CHF m*	Equity attributable to shareholders of Julius Baer Group Ltd. *CHF m*	Non-controlling interests *CHF m*	**Total equity** *CHF m*
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
-	-	-	-	619.4	2.7	622.1
27.5	-	19.8	-	47.3	2.9	50.3
-	19.0	-	-	19.0	-0.1	18.9
27.5	19.0	19.8	-	66.3	2.9	69.2
27.5	19.0	19.8	-	685.7	5.6	691.3
-	-	-	-	-23.4	13.7[3]	-9.7
-	-	-	-	-246.2	-2.1	-248.3
-	-	-	-	6.2	-	6.2
-	-	-	-	70.8	-	70.8
-	-	-	49.4	-	-	-
-	-	-	-3.5	-3.7	-	-3.7
-	-	-	-305.7	-305.7	-	-305.7
-	-	-	215.5	211.0	-	211.0
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9
50.6	**-202.4**	**-99.8**	**-263.1**	**5,330.2**	**23.6**	**5,353.9**
-	**-**	**-**	**-**	**704.8**	**11.1**	**715.9**
9.7	**-**	**29.4**	**-**	**39.1**	**0.7**	**39.8**
-	**2.6**	**-**	**-**	**2.6**	**0.1**	**2.7**
9.7	**2.6**	**29.4**	**-**	**41.7**	**0.8**	**42.5**
9.7	**2.6**	**29.4**	**-**	**746.5**	**11.9**	**758.4**
-	**-**	**-**	**-**	**-268.6**	**-6.0**	**-274.6**
-	**-**	**-**	**-**	**7.0**	**-**	**7.0**
-	**-**	**-**	**-**	**82.4**	**-**	**82.4**
-	**-**	**-**	**81.2**	**-**	**-**	**-**
-	**-**	**-**	**33.0**	**40.7**	**-**	**40.7**
-	**-**	**-**	**-302.5**	**-302.5**	**-**	**-302.5**
-	**-**	**-**	**175.3**	**188.7**	**-**	**188.7**
60.3	**-199.8**	**-70.4**	**-276.1**	**5,824.5**	**29.5**	**5,854.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

	2017 *CHF m*	2016 *CHF m*
Net profit	**715.9**	622.1
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	**42.3**	37.6
- Amortisation and impairment of other intangible assets	**118.2**	103.1
- Allowance for credit losses	**-4.6**	15.1
- Income from investment in associates	**-1.9**	-48.7
- Deferred tax expense/(benefit)	**-18.0**	8.4
- Net loss/(gain) from investing activities	**59.2**	80.2
- Other non-cash income and expenses	**82.4**	70.8
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	**-2,539.9**	5,131.4
- Trading portfolios and derivative financial instruments	**-4,612.1**	682.7
- Net loans/due to customers	**-8,057.7**	-245.4
- Issuance and repayment of financial liabilities designated at fair value	**3,367.3**	4,126.0
- Accrued income, prepaid expenses and other assets	**-935.2**	335.4
- Accrued expenses, deferred income, other liabilities and provisions	**199.9**	-653.7
Adjustment for income tax expenses	**188.5**	122.0
Income taxes paid	**-98.7**	-78.3
Cash flow from operating activities	**-11,494.6**	10,308.9
Dividend of associates	**1.9**	10.2
Purchase of property and equipment and intangible assets	**-171.2**	-172.9
Disposal of property and equipment and intangible assets	**0.0**	0.3
Net (investment in)/divestment of financial investments available-for-sale	**4,237.4**	-251.9
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	**-3.8**	556.1
Deferred payment of acquisition of subsidiaries and associates	**-17.0**	-11.2
Cash flow from investing activities	**4,047.3**	130.7
Net money market instruments issued/(repaid)	**43.3**	78.7
Net movements in treasury shares and own equity derivative activity	**-66.1**	-92.2
Dividend payments	**-268.6**	-246.2
Issuance of bonds	**486.2**[1]	230.4
Repayment of lower tier 2 bond	**-**	-250.0
Changes in non-controlling interests	**-**	-9.6
Dividend payment to non-controlling interests	**-6.0**	-2.1
Cash flow from financing activities	**188.8**	-291.0
Net (decrease)/increase in cash and cash equivalents	**-7,258.5**	10,148.6

[1] Related to the net proceeds of the issuance of the perpetual non-cumulative high-trigger additional tier 1 bond and the domestic senior unsecured bond issued by Julius Baer Group Ltd. in 2017. The difference to the current book values (see Note 16) relates to the amortisation of premiums and discounts (including capitalised transaction costs) and foreign exchange losses.

	2017 *CHF m*	2016 *CHF m*
Cash and cash equivalents at the beginning of the year	**28,270.9**	18,128.7
Cash flow from operating activities	**-11,494.6**	10,308.9
Cash flow from investing activities	**4,047.3**	130.7
Cash flow from financing activities	**188.8**	-291.0
Effects of exchange rate changes on cash and cash equivalents	**174.8**	-6.4
Cash and cash equivalents at the end of the year	**21,187.2**	28,270.9

Cash and cash equivalents are structured as follows:	**31.12.2017** *CHF m*	31.12.2016 *CHF m*
Cash	**10,862.9**	13,599.5
Money market instruments	**2,191.1**	3,785.0
Due from banks (original maturity of less than three months)	**8,133.2**	10,886.4
Total	**21,187.2**	28,270.9

Additional information	**31.12.2017** *CHF m*	31.12.2016 *CHF m*
Interest received	**997.8**	895.4
Interest paid	**-187.6**	-156.0
Dividends on equities received (including associates)	**204.8**	209.4

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2017 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 30 January 2018. In addition, they are submitted for approval to the Annual General Meeting on 11 April 2018.

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 at fair value through profit or loss, derivative financial instruments and financial investments available-for-sale, 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, uncertainties in measuring provisions and contingent liabilities, allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), income taxes (judgment 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 the net assets of 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 26. 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 the 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. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

	Year-end rates		Average exchange rates for the year	
	31.12.2017	31.12.2016	**2017**	2016
USD/CHF	**0.9745**	1.0164	**0.9795**	0.9875
EUR/CHF	**1.1702**	1.0720	**1.1160**	1.0890
GBP/CHF	**1.3182**	1.2559	**1.2750**	1.3280

Reporting of transactions
Foreign exchange, securities and derivatives transactions are recorded in the balance sheet on trade date. All other financial instruments are recorded on settlement date. The financial instruments are assigned to one of the four categories according to IAS 39: loans and receivables, held-to-maturity investments, financial assets and financial liabilities at fair value through profit or loss, and available-for-sale financial assets. They are uniformly recognised within these categories on trade date or settlement date.

Income recognition
Income from services provided is either recognised 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. Income and income components that are based on performance are recognised at the time when all performance criteria are fulfilled and irrevocably earned.

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

Due from banks and loans
Amounts due from banks and loans are initially recognised at fair value, which is the consideration given to originate the receivable or loan, plus any attributable transaction costs. Subsequently, these receivables and loans are measured at their amortised cost using the effective interest method.

Loans are classified as past due when the counterparty has failed to make a payment when contractually due. The exposure is not considered impaired as the Group believes that on the basis of the collateral available it is still covered.

Specific allowances: Loans and amounts due from banks for which it is probable that, based on current information and events, the Group will be unable to collect the whole amounts due according to the original contractual terms of the loan agreement, are measured on an individual basis, and a specific allowance for credit losses is established for impaired amounts, if necessary. Related collaterals are also included in the evaluation.

Impairment is measured and an allowance for credit losses is established for the difference between the carrying amount of the loan and its estimated recoverable amount, taking into account the counterparty risk and the net proceeds from the possible liquidation of any collateral. The recoverable amount equals the present value of estimated future cash flows discounted at the loan's original effective interest rate. The allowance for credit losses is recognised through the income statement.

A write-off is made against the established specific allowance for credit losses when all or part of a loan is deemed uncollectible or forgiven. Recoveries of amounts that were previously written off are credited directly to the income statement.

Collective allowances: In addition to the specific allowances for credit losses, a collective allowance for credit losses is established to account for inherent credit risks collectively, i.e. on a portfolio basis. This collective allowance for credit losses is calculated on the basis of faithfully estimated default rates for each portfolio, which are based on internal credit ratings that are used for classifying the loans.

In the balance sheet, the allowances for credit losses are offset against the corresponding loans and amounts due from banks.

Impaired loans are rated as fully recoverable if the creditworthiness has improved such that there is a reasonable assurance of timely collection of principal and interest according to the original contractual terms.

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.

Trading assets/liabilities
All trading positions are recognised at fair value. Realised gains and losses on disposal or redemption and unrealised gains and losses from changes in the fair value are recognised in net trading income.

Interest and dividend income and interest expense from trading positions are included in net interest and dividend income.

Precious metals held for trading purposes are measured at fair value less costs to sell with all changes in the fair value recognised in net trading income.

Financial assets and liabilities designated at fair value through profit or loss
Financial assets and liabilities may initially be designated as at fair value through profit or loss (fair value option) if one of the following conditions is met:

- they are hybrid instruments which consist of a debt host and an embedded derivative component;
- they are part of a portfolio which is risk-managed on a fair value basis; or
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

The Group measures its issued structured products containing a debt instrument and an embedded derivative at fair value, with changes in fair value recognised in net trading income, thus eliminating the requirement to account for the embedded derivative and its host contract separately.

In addition, the Group reports assets and liabilities related to certain structured investments for which the client bears all the related risks and rewards from the investments, as designated at fair value through profit or loss.

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 trading income.

The Group uses derivative financial instruments for hedging the fair values (fair value hedges) when transactions meet the specified criteria to obtain 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%.

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.

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.

Financial investments available-for-sale
Security positions, including money market instruments, which are not held for trading purposes, are reported as debt and equity securities available-for-sale and are measured at fair value. Unrealised gains and losses are recognised in other comprehensive income and reported in other components of equity until the security is sold, or an impairment loss is recognised, at which point the cumulative gain or loss previously recorded in other components of equity is recognised in the income statement in other ordinary results.

Equity securities are deemed impaired if there has been a significant or prolonged decline of fair value below the acquisition cost. A debt instrument is deemed impaired if the creditworthiness of the issuer significantly deteriorates or if there are other indications that an event has a negative impact on the future estimated cash flows related to the debt instrument, i.e. if it is likely that the amount due according to the contractual terms cannot be entirely collected.

Interest on debt securities is accrued using the effective interest method and, together with dividend income on equity securities, recognised in interest and dividend income.

Property and equipment
Property and equipment includes bank premises, IT, communication systems, leasehold improvements as well as other installations and 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. Installations are depreciated over a period not exceeding ten years, IT hardware over three years and other items of property and equipment over five years.

Leasehold improvements are investments made to customise buildings and offices occupied under operating 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.

Leasing
Under operating leasing, leased assets are not recognised on the balance sheet, as the risks and rewards of ownership remain with the lessor. Lease payments for operating leases are recognised through the item general expenses in the income statement over the lease term on a straight-line basis.

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.

Due to banks and customers
Amounts due to banks and customers are initially recognised at fair value less directly attributable transaction costs and subsequently reported at amortised cost. Interest and discounts are debited to interest expenses on an accrual basis, using the effective interest method.

Debt issued
Issued bonds are initially recognised at the fair value of the consideration received, net of directly attributable transaction costs. They are subsequently reported in the balance sheet at amortised cost using the effective interest method.

Own bonds that the Group holds as a result of market-making activities or for resale in the near term are treated as redemption and are therefore extinguished.

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 is recognised in other comprehensive income which comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost).

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.

Incremental costs that are directly attributable to the issuance of new shares are deducted from equity.

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 trading income.

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

In 2017, there were no new standards or amendments to existing standards that had a material 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 standards, revisions and interpretations will be relevant to the Group:

IFRS 9 – Financial Instruments
The new standard includes the following changes to current accounting for financial instruments:

Recognition and measurement: The new standard uses two criteria to determine how financial assets should be classified and therefore measured: a) the entity's business model for managing the financial assets; and b) the contractual cash flow characteristics of the financial asset.

A business model refers to how an entity manages its financial assets in order to generate cash flows:

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

The additional criteria for determining the classification of a financial asset is whether the contractual cash flows are solely payments of principal and interest. Interest under this model can comprise a return not only for the time value of money and credit risk but also for other components such as return for liquidity risk, amounts to cover expenses and a profit margin.

Based on an analysis of the business model and the nature of the contractual cash flows, a financial asset is measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income (with and without recycling).

Expected credit losses: Contrary to the current impairment model for debt instruments, the new standard requires an entity to recognise expected credit losses at initial recognition of the debt instrument and to update the amount of expected credit losses recognised at each reporting date to reflect changes in the credit risk of debt instruments. It is therefore no longer necessary for a trigger event to have occurred before credit losses are recognised.

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a debt instrument has not increased significantly since its initial recognition, the debt instrument will attract a loss allowance equal to 12-month expected credit losses (‘stage 1’ ECL). If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses (‘stage 2’ ECL) or the debt instrument is credit-impaired (‘stage 3’ ECL).

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

Hedge accounting: The new standard puts in place a model that introduces significant improvements principally by aligning the accounting for hedges more closely with the underlying risk management purposes. To that effect, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Hedge qualification will be based on qualitative, forward-looking hedge effectiveness assessments, rather than on bright lines. There are also enhanced disclosure requirements about hedge accounting and risk management activities.

The new standard will be effective 1 January 2018.

During the second half of 2017, the Group finalised its assessment of the impact of IFRS 9 on the Group’s financial statements. The following applies as of 1 January 2018:

Recognition and measurement: Based on the analyses of the two classification criteria ‘contractual cash flow characteristics’ and ‘business model’, the Group determined that the debt instruments currently reported at amortised cost generally fulfil the criteria and therefore will be measured at amortised cost on an ongoing basis. The same applies to the debt instruments currently reported as available-for-sale and therefore measured at fair value through OCI, which will also be measured at fair value through OCI under the new standard.

A small number of equity instruments currently measured at fair value through OCI will be classified as at fair value through profit or loss going forward. The related fair value gains and losses currently recognised in OCI will be reclassified to retained earnings as of 1 January 2018.

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

Expected credit losses: The Group has modelled its impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements. The four models (for the Lombard loans business, mortgages business, due from banks business and treasury business, respectively) are generally based on the specific financial instrument's probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective effective interest rates. These models are tailored to the Group's fully collateralised Lombard loans and mortgages, and the high-quality debt securities in the treasury portfolio. The models have been thoroughly tested based on the existing data. As of 31 December 2017, the following allowances for credit losses would have been recognised in the financial statements due to the new expected credit loss model under IFRS 9:

- Lombard loans: CHF 6.7 million;
- Mortgage portfolio: CHF 5.0 million; and
- Due from banks: CHF 0.2 million.

The total allowance for expected credit losses on Lombard loans, mortgages and amounts due from banks to be recognised under IFRS 9 ('stage 1' and 'stage 2' ECL) is comparable to the currently recognised collective allowance for credit losses on these positions (see Note 9C). The difference of CHF 4.4 million between the currently recognised collective allowance for credit losses (CHF 16.3 million) and the new expected credit losses under IFRS 9 (CHF 11.9 million) will be recognised in equity (retained earnings) at transition date.

The Group did not change its approach for the calculation of specific allowances for credit losses. Therefore, the currently recognised specific allowance for credit losses in the amount of CHF 24.2 million for Lombard loans and mortgages equals the new allowance for credit-impaired financial assets under IFRS 9 ('stage 3' ECL).

Under the current accounting standard, the Group does not recognise any allowance for its treasury portfolio in 2017. Therefore, the new allowance for credit losses in the amount of CHF 1.7 million to be recorded under IFRS 9 ('stage 1' and 'stage 2') will be recognised in equity (retained earnings) at transition date.

Financial liabilities: The Group will continue to apply its current measurement approach, including the use of the fair value option. No material changes arise.

Hedge accounting: The Group has analysed its existing micro hedges that are designated in effective hedging relationships and has determined that the micro hedge relationships would also qualify for hedge accounting under IFRS 9. The Group continues to apply IAS 39 (except for the new disclosures under IFRS 9) until the IASB issues a final hedge accounting standard including micro and macro hedging.

Transition: The Group will not restate prior periods in its 2018 financial statements.

IFRS 15 – Revenue Recognition

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

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point of time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised:

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

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

The new standard will be effective 1 January 2018 with earlier application permitted. However, the Group did not early apply IFRS 15. The impact of the new standard on the Group's financial statements is not material and is mainly related to disclosures.

IFRS 16 – Leases
The new standard introduces a single lessee accounting model and requires a lessee to recognise 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 lease payments. 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.

The new standard will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRS 16. The impact of the new standard on the Group's financial statements is currently being assessed.

IFRIC 23 – Uncertainty over Income Tax Treatment
The new 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 concludes whether it is probable that the taxation authority will accept an uncertain tax treatment or not and shall reflect the effect of uncertainty in its financial statements.

The new interpretation will be effective 1 January 2019 with earlier application permitted. However, the Group does not intend to early apply IFRIC 23. The impact of the new interpretation has not yet been assessed.

COMMENT ON RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND PROCESS

Risk types
For the purposes of this report, risk comprises both the probability of a given event occurring and its potential adverse impact in the event of a deviation from Julius Baer Group's (the Group) defined objectives. Risk taking is an inherent component of the Group's day-to-day business activities. Risk management therefore constitutes an integral part of the Group's business framework. It is supported by a number of risk control procedures, which are seen as business enablers critical to the management process of the Group. The principal risks to which the Group is exposed are:

- strategic and business risk
- credit risk
- market risk
- liquidity and financing risk
- operational risk (including legal, compliance and personnel risk)
- reputational risk

The risk control framework comprises both qualitative elements, including policies and directives, and quantitative components, including limits. It is continually adapted and enhanced, both in response to changes in the business environment and to any modifications to the business models pursued by the Group.

Risk governance
The Board of Directors of Julius Baer Group Ltd. defines the Group's risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at Group level and that suitable processes are in place. The risk categories and the risk management processes as well as a common risk terminology for the Group are laid down in the Group Risk Policy. Specific Group policies are defined for particular risk categories. Overall responsibility for the implementation of the Group's risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties – the Chief Risk Officer (CRO) and the General Counsel (GC).

The CRO is responsible for the management and control of credit risk, market risk (trading book and banking book), liquidity and financing risk (particularly with regard to the banking book) and of operational risk. Especially as far as legal and compliance risk matters are concerned, he coordinates his activities with the GC, who, as a member of the Executive Board of Julius Baer Group Ltd., is responsible for the management and control of legal and compliance risk at Group level. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance-sheet, capital and liquidity management. The CFO's duties thus include maintaining a sound ratio of eligible capital to risk-weighted positions and ensuring that sufficient liquidity is available at all times.

The CRO and the GC establish appropriate risk guidelines and policies, coordinate and contribute directly to the risk management of the business areas and thus ensure that risk is controlled independently.

Additional Board committees and the Executive Board are integrated into the Group-wide risk management structure as follows:

The Board of Directors delegates the supervision of operational risks to the Audit Committee, while the supervision of all other risks is entrusted to the Chairman's & Risk Committee. The responsibilities of these two committees are described in further detail in the Board of Directors section of this report.

The Executive Board of the Group's principal operating entity, Bank Julius Baer & Co. Ltd., is responsible for measuring and supervising market, liquidity, financing and operational risks in the Group's financial services activities. Accordingly, its principal tasks are:

- to formulate policies governing market, liquidity, financing and operational risk in the Group's financial services business;
- to allocate risk limits in accordance with those policies;

- to receive and review reports relating to those risks.

The Credit Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for measuring and supervising credit risk. In particular, it is responsible for:

- formulating policies governing credit risk;
- making credit business decisions and allocating credit limits within the scope of its remit;
- delegating credit authority;
- receiving and reviewing credit risk reports.

To assist its work in monitoring credit risks, the Credit Committee periodically receives a credit risk report which provides details of the various relevant risks (e.g. concentration risk by issuer and country, rating distributions and major positions) as well as information on the evolution of credit volumes.

The Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising information security risk and for related activities for the purpose of ensuring data confidentiality and integrity.

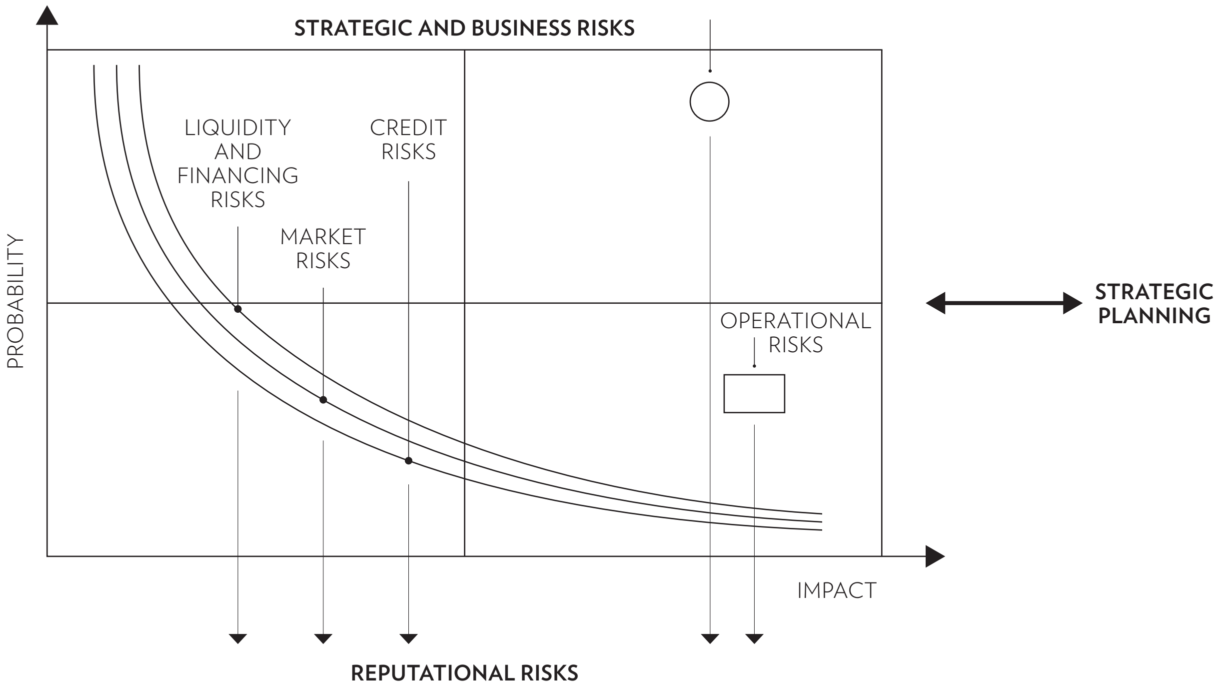
The Business Conduct and Risk Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible for defining standards of conduct and processes relating to client relationships, products and services. This Committee also sets guidelines governing the general conduct of business and monitors their implementation. Finally, the Committee also ensures that the management controls which monitor such conduct are effective and that they are appropriate to the business activities carried out.

The main responsibility for controlling and managing risks, however, primarily lies with the individual organisational units. Identified risks are mapped to a risk landscape, which provides a consolidated picture of the probability of their occurrence and its potential impact. The risk landscape is also used by the business areas, the Executive Board and the Board of Directors of both Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. in their annual strategic planning process.

Thanks to its Code of Business Conduct ('Our professional standards') as well as a series of topic-specific code-of-conduct guidelines, Julius Baer has sustainably established its risk culture throughout the organisation. A broad-based compendium of directives and their associated global standards ensures that corporate governance responsibilities are met. The global standards are complemented by commensurate local standards, which articulate the global principles in more concrete terms and are implemented by the individual Julius Baer entities. Finally, Julius Baer's management processes ensure that the Group's code-of-conduct principles are comprehensively observed in day-to-day business operations. The duties of the units engaged in risk taking and those responsible for monitoring those risks are clearly defined, particularly with regard to independence. An important principle here is to maintain an effective first line of defence which ensures that the risks taken are appropriately managed by those engaging in them. Risk is an established item on the agendas of all divisional management committees. Second-line-of-defence activities are carried out by independent units whose task is to ensure that the framework used for managing risks meets Group requirements and complies with the provisions of the law. Their work includes carrying out independent monitoring of the quality of first-line-of-defence risk management. Internal audit provides the third line of defence by ensuring that the Group's business and risk management activities are carried out in accordance with internal directives and applicable external regulations.

Risk reporting is carried out in a hierarchically appropriate fashion along the chain of management processes and responsibilities described above. In particular, formal rules and procedures govern the risk reports submitted to the various Executive Board and Board of Directors' committees as well as to the Board of Directors itself. The risk landscape referred to above is reviewed and revised each year. As part of this process, the Executive Board uses a top-down analysis of the principal strategic and business risks facing the Group and a broad-based bottom-up analysis of its operational risks in order to define the Group's risk appetite and risk tolerance. This is then submitted to the Board of Directors for ratification. The current risk situation and the measures taken to address the risks identified are described in an ongoing series of quarterly reports. These reports provide details of newly identified risks and new assessments of existing risks, which are discussed at Executive Board and Board of Directors meetings. This process formally requires that the risks inherent in the Group's business model are addressed on an ongoing basis, thus ensuring that the measures decided upon to mitigate risk are implemented and that the processes required to that end are effective.

Risk landscape: illustrative diagram



STRATEGIC AND BUSINESS RISK

Strategic and business risk comprises the danger of external or internal events or decisions resulting in strategic and day-to-day business objectives not being attained. Based on the principles of value- and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in the aforementioned risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input for the strategic planning process and thus influence the rolling three-year plan and hence the annual budgets.

CREDIT RISK

Credit or counterparty risk is the risk of 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. Such non-compliance may result in a financial loss to the Group.

The Group has a policy of lending to private clients on a collateralised basis. The credit risk taken on by the Group as a result of such transactions may arise from lending or from actual or potential receivables due to the Group on client-held positions in derivatives on foreign exchange, equity, interest rate or commodity products. This credit risk is assessed by reference to a set of rules based on security-specific parameters such as market capitalisation, liquidity, issue size, rating, maturity, nature of the underlying asset etc. Advanceable rates can be determined or adjusted for a specific security or for individual clients. As part of the risk management process, clients' collateral positions are individually assessed and valued. Depending on the quality of the collateral and the degree of diversification within individual client portfolios, an advanceable rate is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Group's credit positions to be monitored on a daily basis.

The Bank also grants mortgages to existing private-banking clients in Switzerland and in a limited number of international locations where it maintains a local banking presence. The properties pledged are assessed and valued individually as part of the risk management process. These valuations are carried out either on the basis of 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 the form of securities is also required in addition to the pledged property itself. Every mortgage is assigned a rating, which is subject to periodic reviews whose frequency is determined by the rating level. Compared to its competitors, Bank Julius Baer & Co. Ltd. tends to assign comparatively low mortgage values and adopt a relatively conservative approach to mortgage risk.

In addition, 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 also 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 credit risks associated with all these 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 Bank would not be required to provide additional collateral.

Country limits are set in order to contain the risks potentially arising from country-specific or region-specific constellations.

It is not a policy of the Group to engage in corporate lending activities except for collateralised lending to corporate structures linked to its core private banking business.

The Group's rating concept allows an internal rating classification to be assigned to each individual exposure, and it is on these classifications that the relevant limit-granting processes and monitoring are based.

Group management deliberately refrains from setting specific volume targets for the strategic development of its lending business. Instead, its 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 defines corridor values for credit penetration (i.e. the ratio of lending to assets under management). In addition, individual maximum lending amounts are defined for each rating category and there is also an internal guideline for the maximum loan-to-deposit ratio, which is reviewed and validated periodically.

The Group has an explicit policy of avoiding non-targeted credit exposure which largely precludes it from lending against non-traditional forms of collateral. In individual cases, exposure of this kind may be authorised by the Chairman's & Risk Committee, which may also delegate lower lending limits for such transactions to named officers. Authorisation of any positions which exceed the defined limit for individual exposure by rating category can be granted only by the Chairman's & Risk Committee.

Credit risks are monitored on an IT system which has been implemented throughout the Group. The system draws the relevant position data from the book-keeping 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 Group booking centres. All client and counterparty 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.

The system is able to run comprehensive stress tests. These are calibrated to reflect the prevailing market and political situation. In addition to quantifying direct counterparty risks, these stress tests also examine the effect the scenarios would have on the quality and value of the collateral pledged for Lombard loans and mortgages. The results are reviewed by the credit-monitoring units and reported to the relevant decision-making committees.

The credit risk breakdown presented below is calculated before deduction of eligible collateral and in accordance with Swiss capital adequacy requirements, which are largely based on the international guidelines contained in the Basel Committee on Banking Supervision's (BCBS) Basel III Accord. Differences between the total amounts and the corresponding balance sheet positions are explained in the 'Reconciliation of credit risk totals' section of this report.

For additional information regarding the calculation of the Group's minimum regulatory capital requirements for credit and counterparty risk 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 2018).

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

Credit risk by region

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	**31.12.2017** **Total** *CHF m*
Due from banks	4,544	2,139	377	1,147	43	**8,250**
Loans	9,202	16,365	11,080	9,022	955	**46,624**
Financial assets designated at fair value	265	-	-	12	-	**277**
Financial investments available-for-sale	182	4,240	4,403	2,398	904	**12,127**
Investments in associates	-	-	28	-	-	**28**
Derivative financial instruments	923	1,091	616	246	48	**2,924**
Contingent liabilities	107	468	330	95	28	**1,028**
Irrevocable commitments	190	78	55	14	1	**338**
Securities lending and repo transactions	1,004	2,268	62	-	2	**3,336**
Total	16,417	26,649	16,951	12,934	1,981	**74,932**

	Switzerland *CHF m*	Europe *CHF m*	Americas *CHF m*	Asia/Pacific *CHF m*	Other countries *CHF m*	31.12.2016 Total *CHF m*
Due from banks	6,149	3,486	333	1,400	4	11,372
Loans	9,621	12,426	8,300	7,634	438	38,419
Financial assets designated at fair value	-	158	94	-	-	252
Financial investments available-for-sale	185	7,090	6,998	3,827	46	18,146
Investments in associates	-	-	29	-	-	29
Derivative financial instruments	2,122	810	467	241	4	3,644
Contingent liabilities	105	238	141	64	16	564
Irrevocable commitments	212	116	52	20	-	400
Securities lending and repo transactions	856	2,912	445	46	3	4,262
Total	19,250	27,236	16,859	13,232	511	77,088

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of the credit, however, sector allocation is shown on the basis either of the industry code of the assets pledged, e.g. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column headed 'Other' is used for disclosure of securities issued by companies outside the financial sector: these consist partly of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partly of the portion of the credit collateralised by securities issued by companies outside the financial sector.

Credit risk by sector

					31.12.2017
	Governments and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	**Total** *CHF m*
Due from banks	10	8,203	-	37	**8,250**
Loans	512	15,013	18,720	12,379	**46,624**
Financial assets designated at fair value	-	277	-	-	**277**
Financial investments available-for-sale	4,090	6,975	-	1,062	**12,127**
Investments in associates	-	28	-	-	**28**
Derivative financial instruments	50	1,888	561	425	**2,924**
Contingent liabilities	13	375	446	194	**1,028**
Irrevocable commitments	2	249	66	21	**338**
Securities lending and repo transactions	-	3,330	4	2	**3,336**
Total	4,677	36,338	19,797	14,120	**74,932**

					31.12.2016
	Governments and agencies *CHF m*	Financial institutions *CHF m*	Private clients *CHF m*	Other *CHF m*	Total *CHF m*
Due from banks	-	11,372	-	-	11,372
Loans	630	5,254	25,393	7,142	38,419
Financial assets designated at fair value	-	252	-	-	252
Financial investments available-for-sale	6,530	7,262	-	4,354	18,146
Investments in associates	-	29	-	-	29
Derivative financial instruments	61	1,233	2,058	292	3,644
Contingent liabilities	8	53	381	122	564
Irrevocable commitments	44	110	208	38	400
Securities lending and repo transactions	700	3,075	51	436	4,262
Total	7,973	28,640	28,091	12,384	77,088

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

The Group's internal guidelines accept more types of securities as loan collateral than are authorised by Swiss capital adequacy regulations under the standard approach. While this means that all loans are classified as overcollateralised according to the Group's internal concepts, it also means that, according to the standard approach, some loans are classified as either partially or entirely unsecured for regulatory purposes.

Credit risk secured/not secured including mortgages

			31.12.2017
	Secured by recognised financial collaterals[1] *CHF m*	Not secured by recognised financial collaterals *CHF m*	**Total** *CHF m*
Due from banks	5,477	2,773	**8,250**
Loans	41,707	4,917	**46,624**
Financial assets designated at fair value	277	-	**277**
Financial investments available-for-sale	-	12,127	**12,127**
Investments in associates	-	28	**28**
Derivative financial instruments	1,744	1,180	**2,924**
Contingent liabilities	928	100	**1,028**
Irrevocable commitments	185	153	**338**
Securities lending and repo transactions	2,589	747	**3,336**
Total	52,907	22,025	**74,932**

			31.12.2016
	Secured by recognised financial collaterals[1] *CHF m*	Not secured by recognised financial collaterals *CHF m*	Total *CHF m*
Due from banks	6,395	4,977	11,372
Loans	35,458	2,961	38,419
Financial assets designated at fair value	-	252	252
Financial investments available-for-sale	-	18,146	18,146
Investments in associates	-	29	29
Derivative financial instruments	1,647	1,997	3,644
Contingent liabilities	511	53	564
Irrevocable commitments	195	205	400
Securities lending and repo transactions	3,466	796	4,262
Total	47,672	29,416	77,088

[1] Taking into account recognised collaterals with applied discount factors according to Swiss Capital Adequacy Ordinance

The following table gives an overview of the credit risk classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk weight column, since no regulatory capital is required in respect of these lending positions.

Credit risk by regulatory risk weightings

								31.12.2017
	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% or greater *CHF m*	**Total** *CHF m*
Due from banks	4,551	3,048	-	629	-	22	-	**8,250**
Loans	33,076	30	7,480	10	685	5,343	-	**46,624**
Financial assets designated at fair value	265	-	-	-	-	-	12	**277**
Financial investments available-for-sale	3,624	4,759	-	3,494	-	63	187	**12,127**
Investments in associates	-	-	-	-	-	-	28	**28**
Derivative financial instruments	1,744	666	-	249	25	240	-	**2,924**
Contingent liabilities	928	7	-	16	17	60	-	**1,028**
Irrevocable commitments	185	41	-	-	7	105	-	**338**
Securities lending and repo transactions	2,589	665	-	-	-	82	-	**3,336**
Total	46,962	9,216	7,480	4,398	734	5,915	227	**74,932**

								31.12.2016
	0% *CHF m*	20% *CHF m*	35% *CHF m*	50% *CHF m*	75% *CHF m*	100% *CHF m*	150% or greater *CHF m*	Total *CHF m*
Due from banks	6,391	3,882	-	1,049	-	45	5	11,372
Loans	25,768	12	7,636	266	681	4,052	4	38,419
Financial assets designated at fair value	252	-	-	-	-	-	-	252
Financial investments available-for-sale	5,089	6,553	-	6,298	-	149	57	18,146
Investments in associates	-	-	-	-	-	-	29	29
Derivative financial instruments	1,646	1,475	-	342	2	179	-	3,644
Contingent liabilities	513	-	-	8	-	43	-	564
Irrevocable commitments	195	31	-	89	-	85	-	400
Securities lending and repo transactions	3,466	592	-	-	-	204	-	4,262
Total	43,320	12,545	7,636	8,052	683	4,757	95	77,088

Reconciliation of credit risk totals

The values shown in the tables above are based on the requirements of the approaches chosen in accordance with applicable Swiss regulatory requirements. These are based on the capital adequacy guidelines of the Basel Committee on Banking Supervision (the Basel III BIS approach). Balance sheet and off-balance sheet positions exposed to credit risks are disclosed, with the exception of the following balance sheet positions, which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. The list and tables below explain the differences between the total amounts according to the Basel III BIS approach and the corresponding balance sheet and off-balance sheet positions.

– The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
– In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
– The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.
– Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) by a credit-conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingent liabilities under IFRS.
– Under the Basel III BIS approach, securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach *CHF m*	Balance sheet *CHF m*	Deviation *CHF m*	Comment
Due from banks	8,249.6	8,308.9	-59.3	reverse repurchase transactions of CHF 59.3 million deducted
Loans	46,623.7	46,623.7	-	
Financial assets designated at fair value	277.3	277.3	-	
Financial investments available-for-sale	12,126.6	12,246.5	-119.9	unrealised gains deducted under BIS approach (CHF 119.9 million)
Investments in associates	28.2	28.2	-	
Derivative financial instruments	2,924.1	1,962.7	961.4	
of which security supplement (add-ons)			*2,580.0*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-1,618.6*	*impact of netting rules under BIS approach*
Total 31.12.2017	**70,229.5**	**69,447.3**	**782.2**	

Comments on off-balance sheet positions

	Basel III BIS approach *CHF m*	Off-balance sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	1,028.0	1,254.7[1]	-226.7	converted in credit equivalent
Irrevocable commitments	337.8	688.4[1]	-350.6	converted in credit equivalent
Securities lending and repo transactions	3,335.7	3,077.4	258.3	including risk premium
Total 31.12.2017	**4,701.5**			

[1] These amounts reflect the maximum payments the Group is committed to making.

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach *CHF m*	Balance sheet *CHF m*	Deviation *CHF m*	Comment
Due from banks	11,372.2	11,389.8	-17.6	reverse repurchase transactions of CHF 17.6 million deducted
Loans	38,419.0	38,419.0	-	
Financial assets designated at fair value	252.4	252.4	-	
Financial investments available-for-sale	18,145.6	18,266.6	-121.0	unrealised gains deducted under BIS approach (CHF 138.0 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 17.0 million)
Investments in associates	29.4	29.4	-	
Derivative financial instruments	3,643.5	2,690.9	952.6	
of which security supplement (add-ons)			*1,616.9*	*according to add-on and netting rules under BIS approach*
of which netting of replacement values			*-664.3*	*impact of netting rules under BIS approach*
Total 31.12.2016	71,862.1	71,048.1	814.0	

Comments on off-balance sheet positions

	Basel III BIS approach *CHF m*	Off-balance sheet total *CHF m*	Deviation *CHF m*	Comment
Contingent liabilities	563.7	1,121.4[1]	-557.7	converted in credit equivalent
Irrevocable commitments	399.5	813.3[1]	-413.8	converted in credit equivalent
Securities lending and repo transactions	4,262.3	3,961.7	300.6	including risk premium
Total 31.12.2016	5,225.5			

[1] These amounts reflect the maximum payments the Group is committed to making.

The following table provides an analysis of the Group's exposure to credit risk by credit quality and contains data from the internal credit supervision system used for the calculation and monitoring of the Group's exposure to credit risk. Credit exposure is measured against the following two types of limits: a) risk limits for unsecured credit exposures, which apply mainly to banks and brokers, but also include selected non-financial institutions issuing debt securities; and b) Lombard and mortgage limits for collateralised credit exposures, which relate mainly to private clients.

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, client debit and credit cash balances across different accounts are netted against each other. Derivatives positions are netted, provided a number of conditions are met which justify such netting on economic grounds (e.g. that they have the same underlying asset, the same maturity, the same nominal amount etc.). However, the credit exposure arising from this analysis also includes add-ons which are required for derivatives positions and which are generally higher than those required by the regulators. For that reason the credit exposure calculations below deviate from those calculated for regulatory purposes.

Counterparty derivatives exposures are netted across different products, accounts, branches and collateral positions provided the relevant ISDA and CSA close-out netting master agreements have been signed.

Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

Exposure to credit risk by credit quality

	31.12.2017 Collateralised *CHF m*	31.12.2016 Collateralised *CHF m*	**31.12.2017** Unsecured *CHF m*	31.12.2016 Unsecured *CHF m*
Neither past due nor impaired	**52,605.1**	43,277.4	**27,085.0**	36,580.4
Past due but not impaired	**-**	9.4	**-**	-
Impaired	**46.3**	69.2	**-**	-
Total	**52,651.5**	43,356.0	**27,085.0**	36,580.4
Neither past due nor impaired				
R1 to R3	**45,645.9**	37,230.2	**26,531.7**	35,358.6
R4 to R6 (including temporarily unrated)	**6,959.3**	6,047.2	**553.3**	1,221.8
Total	**52,605.1**	43,277.4	**27,085.0**	36,580.4
Collateral held or credit enhancement available	***211,633.4***	*173,841.5*	**-**	-
Past due but not impaired				
R7	**-**	9.4	**-**	-
Total	**-**	9.4	**-**	-
Collateral held or credit enhancement available	**-**	*9.3*	**-**	-
Impaired				
R8	**35.2**	25.0	**-**	-
R9 to R10	**11.1**	44.2	**-**	-
Total	**46.3**	69.2	**-**	-
Collateral held or credit enhancement available	***65.9***	*30.1*	**-**	-
Allowance for credit losses[1]				
Specific allowance for credit losses	**24.2**	54.2	**-**	-
Collective allowance for credit losses	**14.7**[2]	24.9	**1.7**	1.3
Total	**38.9**	79.1	**1.7**	1.3

1 The allowance for credit losses in this table includes allowances related to loans acquired in business combinations and therefore reflects the risk view. The respective amount in Note 9C does not include allowances related to acquired loans, as such loans have to be recognised net of allowances for IFRS purposes.

2 Risk management estimates the collective allowance for credit losses to be lower in 2017 mostly due to additional and more accurate input factors used for the determination.

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of rating classes R1–R6, the outstanding balances are serviced, the advanceable 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. For these exposures, only collective allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and specific allowances are established only for past-due interest payments. For balances in rating class R8, specific allowances for credit losses are established if it is more likely than not that a loss will arise. The credit risks in rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes. The extent of the credit-loss allowances required in such cases is determined by a credit expert on an individual basis and authorised by the relevant credit authority.

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

	31.12.2017 Gross maximum exposure *CHF m*	31.12.2016 Gross maximum exposure *CHF m*
Cash (excluding cash on hand)	**10,838.1**	13,572.5
Due from banks	**8,308.9**	11,389.8
Loans	**46,623.7**	38,419.0
Trading assets	**2,270.7**	1,415.0
Derivative financial instruments	**1,962.7**	2,690.9
Financial assets designated at fair value	**277.3**	252.4
Financial investments available-for-sale	**12,059.7**	18,101.1
Accrued income	**311.7**	282.8
Total	**82,652.8**	86,123.5
Off-balance sheet		
Irrevocable commitments[1]	**688.4**	813.3
Total maximum exposure to credit risk	**83,341.1**	86,936.8

[1] These amounts reflect the maximum payments the Group is committed to making.

MARKET RISK (TRADING BOOK)

Market risks arise from both our trading activities in the trading book and non-trading business activities in the banking book. The following definitions are used to separate trading book and banking book activities: the *trading book* consists of proprietary positions in financial instruments that are held for resale or repurchase and that are usually taken on with the intention of benefiting from expected short-term differences between their purchase and sale prices. These activities are closely related to the clients' requirements for capital market products and are thus understood as being carried out in support of our core business. The *banking book* generally has a longer-term investment focus and is defined as all other assets, liabilities and off-balance sheet items that either result from classical banking transactions or are intended to be held in order to generate income over time. The non-trading market risks arise therefore predominantly in the form of interest rate and foreign exchange risks.

Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units enter into market risk positions within defined limits.

Organisation of the market risk function, controlling and reporting
The market risk function for Julius Baer Group is assumed by an independent unit reporting to the Head Risk Management who is reporting to the Chief Risk Officer of Julius Baer Group. Market risk functions of Julius Baer Group entities do 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.

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. The Audit Committee of the Board of Directors is informed quarterly about market risk exposures.

Market risk limits are set on a Group level and allocated to the single trading units depending on the nature and magnitude of the market risks in these organisations. Our primary measure of market risk is the value at risk 'VaR' complemented by scenario analysis and sensitivity values.

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 a risk management unit reporting to the CRO. This unit uses a central IT system which is continuously being 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 exposure arising from certain particular risks is also monitored during the trading day and checked against applicable limits.

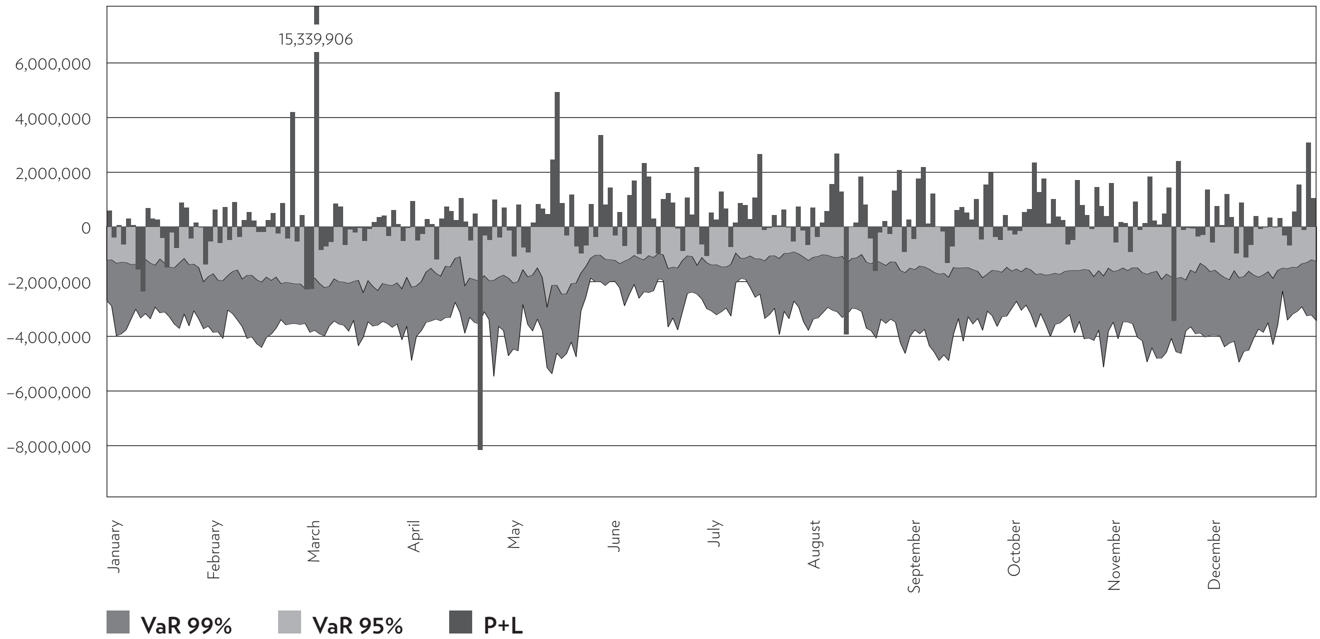
Foreign exchange risks arising from positions in the banking book are also subject to market risk limits.

Trading and hedging strategies
Julius Baer Group entities engage in trading transactions, both as principal and agent, in foreign exchange, precious metals, money market, fixed income, equities, commodities, traditional and non-traditional fund products, and in credit markets. Trading activities are being pursued with the intention of benefiting, in the short term, 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.

The overall trading strategies are outlined in a dedicated policy and detailed in mandates for single trading books, including hedging strategies. The effectiveness of hedging strategies is continuously assured by setting and monitoring trading limits. Regular detailed book reviews by the risk management function supplement the assurance of effective hedging activities.

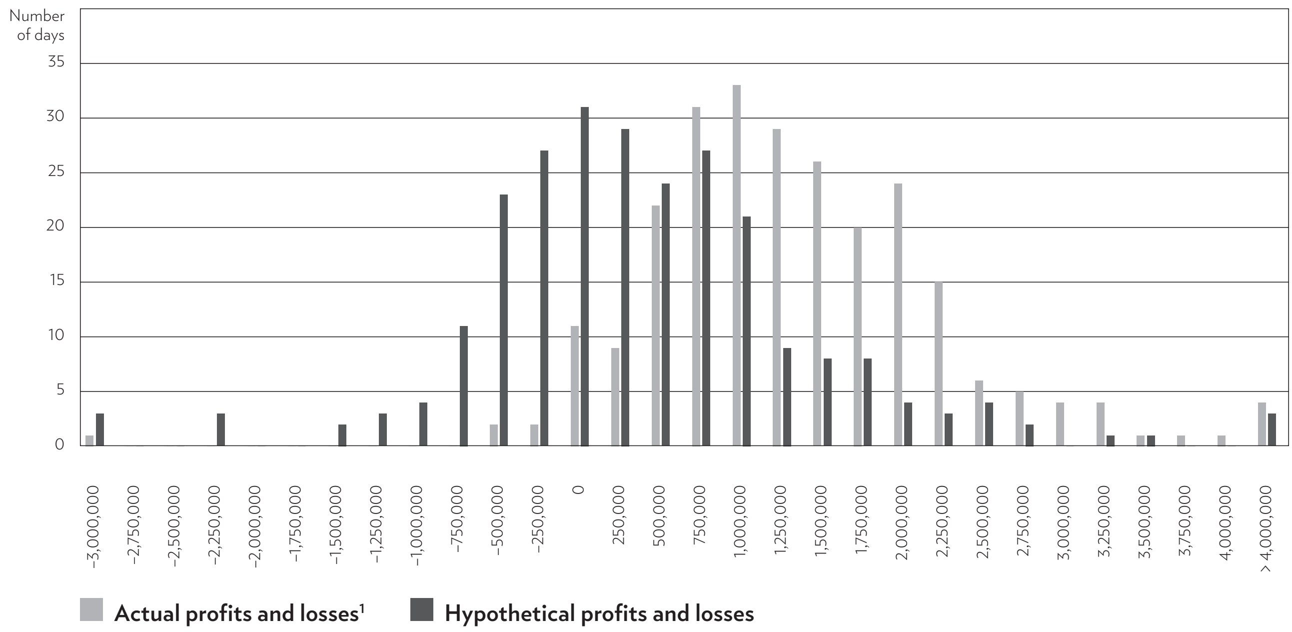
Market risk measurement, market risk limitation, back testing and stress testing
The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits 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 1.03 million on 31 December 2017 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2017 amounted to CHF 2.95 million; the minimum was CHF 0.93 million. 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 2017 (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 2017 (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 2017 (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 2017, the preceding twelve-month period contained no back-testing excessions. During 2017, the number of back-testing excessions rose to two. The first, in April, was caused by increased market volatility attributable to the French presidential elections. The second, in August, was the result of a one-day rally in share prices of between 1% and 1.7%. As a result, the number of statistically permissible back-testing excessions during the period was not exceeded.

All back-testing excessions 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 1.45 million on 31 December 2017 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2017 amounted to CHF 3.69 million; the minimum was CHF 1.16 million. 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 excession over and above the statistically based maximum permitted number of excessions (four over a period of 250 trading days) results in an increase in the multiplier applied to the capital requirement for market risk. There were two back-testing excessions to report by the end of 2017. 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 2018).

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 CHF m	Average CHF m	Maximum CHF m	2017 Minimum CHF m
Equities	**-0.3**	**-1.2**	**-2.4**	**-0.3**
Interest rates	**-0.6**	**-0.7**	**-0.9**	**-0.6**
Foreign exchange/precious metals	**-0.2**	**-0.6**	**-2.7**	**-0.0**
Effects of correlation	**0.0**			
Total	**-1.0**	**-1.6**	**-2.9**	**-0.9**

	At 31 December CHF m	Average CHF m	Maximum CHF m	2016 Minimum CHF m
Equities	-0.9	-0.8	-1.8	-0.1
Interest rates	-0.8	-0.8	-1.3	-0.2
Foreign exchange/precious metals	-0.4	-0.9	-1.7	-0.3
Effects of correlation	0.9			
Total	-1.2	-1.3	-2.2	-0.7

FINANCING, LIQUIDITY AND INTEREST RATE RISKS IN THE BANKING BOOK

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. Interest rate risk is defined as the effect of potential changes in interest rates on the market value of the Group's assets and liabilities.

Governance
The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's financing, liquidity and interest rate risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. The Treasury department proposes the strategy for managing the financing, liquidity and interest rate risks and submits this to the Group's Asset and Liability Management Committee (ALMCO) for approval. Limits for financing, liquidity and interest rate risks are defined at Group level. These are reviewed at least once annually and approved by the Board of Directors and the Group ALMCO. The Group's consolidated exposure to financing, liquidity and interest rate risks is reported to the Group ALMCO at least once a month. The particular liquidity and interest rate risks to which Bank Julius Baer & Co. Ltd. is exposed are monitored and managed on a daily basis, as are those of the other Group companies. The Treasury Risk Control unit provides independent reports on the relevant risk positions for this purpose.

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 book-keeping systems for the Group companies' trading 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.

Here, too, broad-based Group-wide stress tests are carried out based on the current market and political situation. Examples include scenarios resulting in an abrupt increase in interest rates. In addition to such immediate consequences as the change in the market value of the treasury bond portfolio, these scenarios also take account of longer-term effects such as changes in net interest earnings and higher refinancing costs.

Management of liquidity and financing risks

The objective of the Group's liquidity risk management is to maintain a healthy liquidity position which enables the Group to meet all its obligations when they fall due and to maintain sufficient flexibility to be able to react to company-specific stress situations in tight market conditions.

A liquidity stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

To complement the analysis provided by the liquidity stress scenario, a variety of early warning indicators are monitored with respect to the current liquidity position.

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. During 2017, the Group's LCR fluctuated between 105% and 180%, which puts it significantly above the minimum statutory requirement of 80%. For additional quantitative information relating to the LCR, 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 2018).

In managing its financing risks, 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'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.

Management of interest rate risks

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 2017. 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

Interest sensitivity by time bands and 100 bp parallel increase	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total** *CHF m*
CHF						
2017	**3.9**	**-3.1**	**38.6**	**66.7**	**-33.6**	**72.4**
2016	3.4	-4.9	34.3	61.7	-44.5	49.9
USD						
2017	**12.1**	**-2.5**	**-0.8**	**-38.4**	**15.0**	**-14.5**
2016	12.0	-3.6	-4.7	-136.3	-1.4	-134.0
EUR						
2017	**8.9**	**-4.7**	**-1.3**	**62.3**	**-10.2**	**54.9**
2016	7.9	-2.2	-12.5	55.5	-1.8	46.9
Other						
2017	**2.0**	**-2.4**	**0.1**	**31.7**	**-0.1**	**31.3**
2016	2.8	-1.7	-6.7	29.5	0.3	24.2

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 -129.8 million at the end of 2017 (2016: CHF -180.0 million).

Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2017 amounted to a net CHF -30.8 million (2016: CHF -61.1 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounted to CHF 32.6 million (2016: CHF 58.0 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

Remaining expected maturities of financial assets and 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 assets						
Cash	10,862.9	-	-	-	-	**10,862.9**
Due from banks	-	8,154.3	154.5	-	-	**8,308.9**
Loans	-	37,854.7	3,394.0	3,350.9	2,024.1	**46,623.7**
Trading assets	12,751.8	-	-	-	-	**12,751.8**
Derivative financial instruments	1,962.7	-	-	-	-	**1,962.7**
Financial assets designated at fair value	277.3	-	-	-	-	**277.3**
Financial investments available-for-sale	-	1,710.8	1,530.0	8,297.3	708.3	**12,246.5**
Accrued income	-	311.7	-	-	-	**311.7**
Total 31.12.2017	25,854.7	48,031.6	5,078.6	11,648.2	2,732.4	**93,345.5**
Total 31.12.2016	24,203.4	44,869.8	6,309.0	14,181.9	2,997.6	92,561.6

	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						
Due to banks	-	7,209.5	0.0	-	-	**7,209.5**
Due to customers	-	67,109.2	527.6	-	-	**67,636.8**
Trading liabilities	135.8	-	-	-	-	**135.8**
Derivative financial instruments	2,059.2	-	-	-	-	**2,059.2**
Financial liabilities designated at fair value	2,130.1	5,302.5	2,433.4	1,510.8	459.9	**11,836.7**
Debt issued	122.1	246.2	-	917.5	491.2	**1,777.0**
Accrued expenses	-	192.7	-	-	-	**192.7**
Other liabilities[1]	-	-	14.4	18.4	-	**32.8**
Total 31.12.2017	4,447.2	80,060.1	2,975.5	2,446.7	951.1	**90,880.6**
Total 31.12.2016	3,315.6	81,655.1	2,243.5	1,183.4	1,505.6	89,903.1

[1] Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A., and Wergen & Partner Vermögensverwaltungs AG, see Notes 26B and 27.

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	6,921.7	287.3	-	0.8	-	**7,209.8**
Due to customers	58,918.7	8,368.7	359.6	-	-	**67,646.9**
Trading liabilities	135.8	-	-	-	-	**135.8**
Derivative financial instruments	2,011.3	-	0.6	25.9	21.4	**2,059.2**
Financial liabilities designated at fair value	2,130.1	5,343.4	2,506.3	1,535.0	459.9	**11,974.7**
Debt issued	122.1	266.5	55.6	1,099.2	520.5	**2,063.9**
Accrued expenses	-	192.7	-	-	-	**192.7**
Other liabilities[1]	-	-	14.4	18.4	-	**32.8**
Total 31.12.2017	70,239.8	14,458.5	2,936.5	2,679.3	1,001.8	**91,315.8**
Due to banks	9,771.6	304.8	-	0.6	-	10,076.9
Due to customers	61,412.7	5,661.1	278.3	147.1	-	67,499.1
Trading liabilities	159.0	-	-	-	-	159.0
Derivative financial instruments	2,213.5	-	0.6	24.9	46.3	2,285.3
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	8,528.9
Debt issued	0.2	92.0	40.1	119.8	1,134.7	1,386.8
Accrued expenses	-	187.7	-	-	-	187.7
Other liabilities[2]	-	-	21.3	19.9	-	41.2
Total 31.12.2016	74,428.0	10,232.2	2,466.1	1,486.6	1,551.9	90,164.9
Financial liabilities not recognised on balance sheet						
Irrevocable commitments[3]	627.0	2.3	37.0	19.1	3.0	**688.3**
Total 31.12.2017	627.0	2.3	37.0	19.1	3.0	**688.3**
Total 31.12.2016	788.8	14.2	2.7	7.5	-	813.3

[1] Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A., and Wergen & Partner Vermögensverwaltungs AG, see Notes 26B and 27.

[2] Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

[3] These amounts reflect the maximum payments the Group is committed to making.

Exposures to risks, in addition to interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price-risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. The balance sheets of the vast majority of Group entities are managed in local currency and they are only allowed to take on exchange rate exposure against their local currency in exceptional circumstances. Where they do occur, these exposures are limited and measured according to individual balance-sheet-management guidelines and are also included in the Group's VaR calculations. The local-currency shareholders' equity of these Group entities are not hedged against exchange rate risk at Group level.

OPERATIONAL RISK

Operational risk is defined as the risk of losses arising as a result either of the inadequacy or failure of internal processes, people or systems or as a consequence of external events.

Framework for the management of operational risk

The framework used to manage and limit operational risk is defined by the Group Risk Management function. This framework is based on a structured approach whose objective is to apply a set of uniform standards and methodologies for identifying, evaluating, monitoring, controlling and reporting risks across the Group. A further objective is to allow individual business areas and legal entities sufficient flexibility to adapt the specific components of this framework to meet their particular needs while at the same time ensuring that Group-wide minimum standards continue to be met.

The key components of this framework are described below:

- Organisational structure: the tasks, responsibilities and processes for managing operational risk, and the relevant escalation procedures relating thereto, are set out in a series of directives, guidelines and manuals.
- Willingness to assume risk and levels of risk tolerance: operational risk appetite and the underlying level of operational risk tolerance is determined by the Board of Directors and the Executive Board as part of their annual review of the overall risk landscape. The processes for monitoring risk appetite and the level of risk tolerance include directives, limits and defined levels of authority, which are also reflected in the Group's business strategy and personnel policy.
- Control system: the control environment which has been established to manage operational risk requires that activities are carried out in accordance with defined directives and guidelines and that processes operate as specified. Under this approach, controls are integrated into business processes wherever possible. Key controls are carried out in a timely fashion and their results are monitored by Risk Management. In addition, the quality and completeness of certain key controls is subject to independent verification, which ensures that their specifications and effectiveness are assessed on a regular basis. In addition there are independent control functions in place that monitor certain specific operational risks.
- Register of operational risks: the individual legal entities maintain operational risk registers listing the operational risks which have been identified as inherent to their specific business activities and the measures which have been put in place to eliminate or reduce them. These operational risks are classified and evaluated according to a uniform, Group-wide risk taxonomy and a uniform quantitative risk evaluation template charting potential risks and the probability of their occurrence.
- Record of operational risk events: Losses arising as a result of operational risk are recorded by Risk Management in a Group-wide database. Evaluation of these events enables operational weaknesses to be identified so that appropriate measures can be taken to remedy them.
- Self-evaluation of risks and of the quality of the control system: these self-evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self-evaluations are incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.
- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

Given the diversity of operational activities carried out by the Group, it is not possible for them all to be covered by one single overarching system. Instead, information on individual topics is collected based on its specific content and the needs of those to whom it needs to be addressed. This information is then aggregated by topic and collated for submission to the relevant committees and management teams. Data from centrally managed systems which have been rolled out across the Group, such as the directives database, the audit database, the operational risk register and the operational loss database can be consolidated directly. Data from decentralised systems, such as the plans for local key inventory checks, is collated centrally and appropriately aggregated.

A self-assessment of operational risks is carried out which implicitly simulates an adverse what-if stress scenario. For each individual category of risk, the scenario assesses what could potentially occur. This assessment is continuously updated to take account of the activities carried out in the framework described above.

Julius Baer calculates its minimum regulatory capital requirement for operational risks according to the standard approach under article 90 of the Capital Adequacy Ordinance.

Business Continuity Management

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

The BCM Programme is based on national and international standards (such as ISO standards) and on the business continuity recommendations formulated by the Swiss Bankers' Association, some of which have been defined as compulsory by FINMA. The programme also reflects local BCM requirements applicable to BCM-relevant business units outside Switzerland.

Regular crisis organisation exercises are conducted to assess the effectiveness of these measures, and regular internal and external audits are carried out to review the content of the programme.

Legal and compliance risk

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, 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.

Regulatory or compliance risk is the risk of financial or other loss or injury resulting from a breach of applicable laws and regulations or the departure from internal or external codes of conduct or market practice. The loss or injury in such circumstances may take the form of fines imposed by regulatory authorities or other sanctions such as restrictions on business activities or the imposition of mandatory remedial measures.

Measures aimed at minimising legal and regulatory or compliance risks include raising staff awareness of legal and regulatory issues through training and internal directives and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

As described in the risk governance section of this report, the General Counsel and the Chief Risk Officer coordinate the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors. In line with the development of the legal and regulatory environment of the industry, the Group has consistently invested in personnel and technical resources to ensure adequate compliance coverage. Measures in place to ensure adherence to current standards include a comprehensive and continuously updated catalogue of directives and manuals and an extensive staff-training concept.

Personnel risk
Personnel risks such as bottleneck risk, motivational risk, adaptation risk and departure risk will continue to affect the Group in the years ahead. These individual types of risk interact with each other in a number of ways. Continuous change, the increasing burdens placed on managers and staff alike as a result of day-to-day business taking place alongside major projects, the relatively inclement economic outlook and current demographic trends are all factors which can be expected to affect a number of different risk areas in the next few years. Maintaining departure risk at modest levels requires work-structure models for staff that are flexible with regard to both time and location. These need to be complemented by modular compensation concepts. The bottleneck risk resulting from current demographic trends and political restrictions placed on migration can be addressed through attractive terms of employment, a contemporary and competitive working environment, education and training tailored to individual job functions and strategically oriented staff-development and talent-management concepts. Motivational and adaptation risks are closely interrelated. They reflect the ongoing changes which are now inherent in day-to-day operations. In order to take appropriate, targeted action to address these risks, employee surveys and regular dialogue with employees are important. The essential point is for people to understand why change is necessary. They also need to be fairly remunerated for the substantial amount of work they are willing to carry out. Dealing with these issues appropriately is something Julius Baer regards as an important management task, and it is one to which the Group accords commensurate priority.

Insurance
In line with general industry practice, and in addition to controlling and minimising the operational risks described above, we also endeavour to cover or reduce their potential adverse financial impact by mitigating the risk of loss in specific areas of our business activities through insurance solutions.

REPUTATIONAL RISK

Reputational risk describes the risk of events which could do lasting harm to the Group's reputation and thus impair its franchise. The Group's ability to conduct its business is critically dependent on the reputation which Bank Julius Baer & Co. Ltd., the Group's main operating entity, has established in the course of its more than 125 years. Maintaining its good reputation is therefore vitally important for the Group, and all staff must make this a top priority. Appropriate measures are taken on a regular basis to ensure that staff are aware of the critical importance of the Group's reputation.

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 2017, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A 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 effects of Basel III and of the changes to IAS 19 with regard to pension fund liabilities are gradually being incorporated into the Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018.

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 anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland and an additional anti-cyclical CET1 capital buffer for commitments outside Switzerland. Taken together, these add a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2017 and at 31 December 2016 was sufficient to meet the relevant BIS and FINMA requirements.

Capital ratios

	31.12.2017 *Basel III phase-in[1] CHF m*	31.12.2016 *Basel III phase-in[1] CHF m*
Risk-weighted positions		
Credit risk	**13,627.9**	14,902.8
Non-counterparty-related risk	**445.9**	506.7
Market risk	**561.1**	957.7
Operational risk	**4,941.1**	4,634.6
Total	**19,576.0**	21,001.8
Eligible capital		
CET1 capital[2]	**3,260.8**	3,444.2
Tier 1 capital[2]	**4,235.1**	3,597.0
of which hybrid tier 1 capital instruments[3]	***1,455.3***	*1,134.7*
Tier 2 capital	**63.4**	70.2
Total capital	**4,298.5**	3,667.2
CET1 capital ratio	**16.7%**	16.4%
Tier 1 capital ratio	**21.6%**	17.1%
Total capital ratio	**22.0%**	17.5%

1 The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. All listed capital instruments of Julius Baer are fully compliant with the Basel III guidelines.
2 During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively.
3 The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, 2014, 2015, 2016 and 2017.

Further details regarding tier 1 capital instruments can be found in the Regulatory Disclosures section of www.juliusbaer.com. Also refer to debt issued, Note 16.

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 2017. 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 (this will be available at the end of April 2018).

Capital components

	31.12.2017 *Basel III phase-in CHF m*	31.12.2016 *Basel III phase-in CHF m*
Gross common equity tier 1 capital[1]	**5,830.4**	5,339.7
of which non-controlling interests	***5.9***	*9.4*
Effects of IAS19 revised relating to pension liabilities	**40.0**	81.0
Goodwill and other intangible assets	**-2,269.7**	-1,670.8
Other deductions	**-339.9**	-305.7
Common equity tier 1 capital	**3,260.8**	3,444.2
Tier 1 capital instruments	**1,455.3**	1,134.7
of which tier 1 bonds (Basel III-compliant capital instruments)	***1,455.3***	*1,134.7*
Goodwill and intangible assets, offset against tier 1 capital instruments	**-481.0**	-981.9
Additional tier 1 capital	**974.3**	152.8
Tier 1 capital	**4,235.1**	3,597.0
Tier 2 capital	**63.4**	70.2
of which other tier 2 capital	***63.4***	*70.2*
Total capital	**4,298.5**	3,667.2

1 Phase-in of 20% of non-controlling interests of total CHF 29.5 million (31.12.2016: phase-in of 40% of total CHF 23.6 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 70% (2016: 71%) of the total required capital. Capital required for non-counterparty risk (2017: 2%; 2016: 2%) and market risk (2017: 3%; 2016: 5%) is of minor significance. The capital required to cover operational risk accounts for more than 25% of total required capital (2016: 22%).

Minimum capital requirement

	31.12.2017 *Basel III phase-in CHF m*	31.12.2016 *Basel III phase-in CHF m*
Credit risk	**1,090.2**	1,192.2
of which for equity securities in the banking book	***15.2***	*9.8*
Non-counterparty-related risk	**35.7**	40.5
Market risk	**44.9**	76.6
Operational risk	**395.3**	370.8
Total	**1,566.1**	1,680.1

Leverage ratio

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, 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 new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in 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 2018).

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

1 NET INTEREST AND DIVIDEND INCOME

	2017 *CHF m*	2016 *CHF m*	Change *%*
Interest income on amounts due from banks	**44.1**	41.1	7.4
Interest income on loans	**669.3**	522.2	28.2
Interest income on financial investments available-for-sale	**247.1**	252.3	-2.0
Total interest income using the effective interest method	**960.6**	815.6	17.8
Dividend income on financial investments available-for-sale	**7.6**	7.3	4.1
Interest income on trading portfolios	**31.8**	29.1	9.3
Dividend income on trading portfolios	**195.3**	191.9	1.8
Total interest and dividend income	**1,195.3**	1,043.9	14.5
Interest expense on amounts due to banks	**18.7**	13.9	34.4
Interest expense on amounts due to customers	**100.6**	51.2	96.5
Interest expense on debt issued	**67.6**	64.8	4.3
Interest expense on financial assets[1]	**20.5**	36.8	-44.2
Total interest expense using the effective interest method	**207.5**	166.8	24.4
Total	**987.8**	877.1	12.6

[1] Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

2 NET COMMISSION AND FEE INCOME

	2017 *CHF m*	2016 *CHF m*	Change *%*
Advisory and asset management fees	**1,422.7**	1,137.6	25.1
Brokerage commissions and income from securities underwriting	**662.9**	538.8	23.0
Commission income from credit-related activities	**6.1**	7.7	-20.6
Commission and fee income on other services	**80.4**	87.1	-7.6
Total commission and fee income	**2,172.1**	1,771.1	22.6
Commission expense	**241.5**	206.2	17.1
Total	**1,930.6**	1,564.9	23.4

3 NET TRADING INCOME

	2017 CHF m	2016 CHF m	Change %
Debt instruments	**75.0**	50.1	49.7
Equity instruments	**-158.9**	-166.6	4.6
Foreign exchange	**387.6**	449.0	-13.7
Total	**303.6**	332.5	-8.7

4 OTHER ORDINARY RESULTS

	2017 CHF m	2016 CHF m	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	**7.4**	4.0	85.2
Impairment on financial investments available-for-sale	**-0.2**	-1.6	-
Income from investments in associates	**1.9**	40.4	-95.3
Real estate income	**6.1**	5.5	11.6
Other ordinary income	**15.2**	30.4	-50.1
Other ordinary expenses	**0.1**	0.8	-89.6
Total	**30.3**	77.9	-61.1

5 PERSONNEL EXPENSES

	2017 CHF m	2016 CHF m	Change %
Salaries and bonuses	**1,223.9**	1,106.6	10.6
Contributions to staff pension plans (defined benefits)	**74.0**	13.2[1]	458.8
Contributions to staff pension plans (defined contributions)	**32.5**	27.4	18.7
Other social security contributions	**104.2**	89.6	16.3
Share-based payments	**82.4**	70.8	16.5
Other personnel expenses	**38.6**	28.2	36.8
Total	**1,555.7**	1,335.9	16.5

[1] Including the effect of a plan amendment in the amount of CHF 62.8 million, see Note 22.

6 GENERAL EXPENSES

	2017 *CHF m*	2016 *CHF m*	Change *%*
Occupancy expense	**96.3**	90.1	6.9
IT and other equipment expense	**75.7**	72.8	4.1
Information, communication and advertising expense	**182.8**	173.0	5.6
Service expense, fees and taxes	**253.1**	239.8	5.5
Valuation allowances, provisions and losses	**29.8**	40.4	-26.3
Other general expenses	**12.0**	7.1	69.3
Total	**649.7**	623.2	4.2

7 INCOME TAXES

	2017 *CHF m*	2016 *CHF m*	Change *%*
Income tax on profit before taxes (expected tax expense)	**195.0**	165.6	17.8
Effect of tax rate differences in foreign jurisdictions	**-3.7**	-6.2	-
Effect of domestic tax rate differences	**29.1**	24.2	-
Income subject to a reduced tax rate	**-70.1**	-81.5	-
Effect of utilisation of prior-year losses	**-9.4**	-0.8	-
Effect from unrecognised tax losses	**10.8**	16.3	-
Adjustments related to prior years	**-10.1**	-0.2	-
Non-deductible expenses	**28.8**	12.9	-
Other	**0.2**	0.2	-
Actual income tax expense	**170.6**	130.4	-

The tax rate of 22% (2016: tax rate of Switzerland of 22%) was applied as the basis for the above expected tax expenses. This tax rate reflects the Group weighted average rate.

Unrecognised accumulated loss carryforwards in the amount of CHF 289.2 million (2016: CHF 281.1 million) exist in the Group that do not expire.

The Group is currently involved in discussions with tax authorities, amongst others regarding the final assessment of the tax deductibility of certain elements in the US settlement case. Such tax assessments may be ongoing for several years and the final position may only be known at a later point in time.

	2017 *CHF m*	2016 *CHF m*	Change *%*
Domestic income taxes	**110.8**	108.1	2.5
Foreign income taxes	**59.8**	22.4	167.3
Total	**170.6**	130.4	30.8

Current income taxes	**188.5**	122.0	54.5
Deferred income taxes	**-18.0**	8.4	-
Total	**170.6**	130.4	30.8

Tax effects relating to components of other comprehensive income

			2017
	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 financial investments available-for-sale	4.4	-1.1	3.3
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	6.6	-0.3	6.4
Translation differences	30.1	-	30.1
Realised (gains)/losses on translation differences reclassified to the income statement	-	-	-
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	3.1	-0.3	2.7
Other comprehensive income	**44.1**	**-1.7**	**42.5**

			2016
	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 financial investments available-for-sale	29.1	-9.3	19.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	8.1	-0.3	7.8
Translation differences	22.8	-	22.8
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	-	-0.0
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	25.0	-6.1	18.9
Other comprehensive income	84.9	-15.8	69.2

8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2017	2016
Basic earnings per share		
Net profit (CHF m)	**704.8**	619.4
Weighted average number of shares outstanding	**216,894,003**	217,404,899
Basic earnings per share (CHF)	**3.25**	2.85

Diluted earnings per share		
Net profit (CHF m)	**704.8**	619.4
Less (profit)/loss on equity derivative contracts (CHF m)	**0.2**	-1.5
Net profit for diluted earnings per share (CHF m)	**705.0**	617.9
Weighted average number of shares outstanding	**216,894,003**	217,404,899
Dilution effect	**8,040**	-48,478
Weighted average number of shares outstanding for diluted earnings per share	**216,902,043**	217,356,421
Diluted earnings per share (CHF)	**3.25**	2.84

	31.12.2017	31.12.2016
Shares outstanding		
Total shares issued at the beginning of the year	**223,809,448**	223,809,448
Less treasury shares	**5,875,310**	6,346,886
Total	**217,934,138**	217,462,562

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

9A DUE FROM BANKS

	31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *CHF m*
Due from banks	**8,310.5**	11,391.0	-3,080.5
Allowance for credit losses	**-1.6**	-1.3	-0.4
Total	**8,308.9**	11,389.8	-3,080.9

Due from banks by type of collateral:

Securities collateral	**401.5**	387.8	13.7
Without collateral	**7,907.4**	11,001.9	-3,094.6
Total	**8,308.9**	11,389.8	-3,080.9

9B LOANS

	31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *CHF m*
Lombard loans	**36,763.0**	29,173.2	7,589.8
Mortgages	**9,892.8**	9,317.6	575.2
Subtotal	**46,655.8**	38,490.8	8,165.0
Allowance for credit losses	**-32.1**	-71.8	39.7
Total	**46,623.7**	38,419.0	8,204.7

Lombard loans by type of collateral:

Securities collateral	**29,081.6**	22,964.8	6,116.8
Mortgage collateral	**9,971.8**	9,329.8	642.0
Other collateral (mainly cash and fiduciary deposits)	**7,488.0**	6,053.6	1,434.4
Without collateral	**82.3**	70.8	11.4
Total	**46,623.7**	38,419.0	8,204.7

9C ALLOWANCE FOR CREDIT LOSSES

	2017 Specific CHF m	Collective CHF m	2016 Specific CHF m	Collective CHF m
Balance at the beginning of the year	**47.2**	**25.9**	58.5	26.3
Write-offs	**-34.4**	**-**	-27.3	-
Increase in allowance for credit losses	**6.2**	**4.0**	15.6	3.9
Decrease in allowance for credit losses	**-1.0**	**-13.8**[1]	-0.1	-4.4
Translation differences and other adjustments	**-0.5**	**0.2**	0.4	-0.0
Balance at the end of the year	**17.4**	**16.3**	47.2	25.9

[1] Risk management estimates the collective allowance for credit losses to be lower in 2017 mostly due to additional and more accurate input factors used for the determination.

9D IMPAIRED LOANS

	31.12.2017 CHF m	31.12.2016 CHF m	Change CHF m
Gross loans	**43.9**	83.3	-39.4
Specific allowance for credit losses	**-17.4**	-47.2	29.7
Net loans	**26.5**	36.2	-9.7

10 TRADING ASSETS AND LIABILITIES

	31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *CHF m*
Trading assets			
Debt instruments	**2,270.7**	1,415.0	855.7
of which quoted	***1,929.0***	*1,337.4*	*591.6*
of which unquoted	***341.7***	*77.5*	*264.1*
Equity instruments	**8,985.2**	5,846.9	3,138.3
of which quoted	***6,991.6***	*5,466.0*	*1,525.6*
of which unquoted	***1,993.6***	*380.8*	*1,612.7*
Precious metals (physical)	**1,495.9**	398.8	1,097.1
Total	**12,751.8**	7,660.7	5,091.1

Trading liabilities			
Short positions – debt	**9.4**	48.0	-38.6
of which quoted	***9.4***	*44.7*	*-35.4*
of which unquoted	**-**	*3.2*	*-3.2*
Short positions – equity	**126.5**	111.0	15.5
of which quoted	***82.4***	*96.0*	*-13.5*
of which unquoted	***44.0***	*15.0*	*29.0*
Total	**135.8**	159.0	-23.1

11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *CHF m*
Money market instruments	**2,191.1**	3,785.0	-1,593.9
Government and agency bonds	**2,307.4**	3,477.0	-1,169.6
Financial institution bonds	**4,118.3**	6,295.5	-2,177.1
Corporate bonds	**3,436.7**	4,500.0	-1,063.4
Other bonds	**6.2**	43.5	-37.4
Debt instruments	**9,868.6**	14,316.0	-4,447.5
of which quoted	***9,313.2***	*13,259.3*	*-3,946.0*
of which unquoted	***555.3***	*1,056.8*	*-501.4*
Equity instruments	**186.8**	165.5	21.4
of which quoted	***33.4***	*26.0*	*7.4*
of which unquoted	***153.4***	*139.5*	*14.0*
Total	**12,246.5**	18,266.6	-6,020.0

11B FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE – CREDIT RATINGS

			31.12.2017 *CHF m*	31.12.2016 *CHF m*	Change *CHF m*
Debt instruments by credit rating classes	**Fitch, S&P**	**Moody's**			
1–2	AAA – AA-	Aaa – Aa3	**7,237.2**	9,491.3	-2,254.2
3	A+ – A-	A1 – A3	**2,474.5**	4,458.7	-1,984.2
4	BBB+ – BBB-	Baa1 – Baa3	**127.2**	266.7	-139.5
5	BB+ – BB-	Ba1 – Ba3	**16.8**	52.1	-35.3
Unrated			**12.9**	47.2	-34.3
Total			**9,868.6**	14,316.0	-4,447.5

12 GOODWILL, INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

	Goodwill *CHF m*	Customer relationships *CHF m*	Software *CHF m*	**Total intangible assets** *CHF m*	Bank premises *CHF m*	Other property and equipment *CHF m*	**Total property and equipment** *CHF m*
Historical cost							
Balance on 01.01.2016	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5
Translation differences	21.8	7.7	-0.0	29.5	-	-1.3	-1.3
Additions	-	-	139.1	139.1	4.2	29.6	33.8
Additions from business combinations	337.1	104.9	12.3	454.3	-	5.4	5.4
Disposals/transfers[1]	-	-	18.7	18.7	-	10.5	10.5
Balance on 31.12.2016	2,071.3	1,422.5	689.8	4,183.6	411.5	230.5	642.0
Translation differences	-3.0	0.4	0.9	-1.7	-	1.8	1.8
Additions	-	-	147.0	147.0	3.5	20.7	24.2
Additions from business combinations	4.7	7.4	-	12.1	-	-	-
Disposals/transfers[1]	-	-	7.4	7.4	-	17.0	17.0
Balance on 31.12.2017	2,073.0	1,430.3	830.2	4,333.6	415.0	236.0	651.0
Depreciation, amortisation and impairment							
Balance on 01.01.2016	-	934.0	329.0	1,263.1	91.3	150.0	241.3
Translation differences	-	1.8	-0.1	1.7	-	-0.4	-0.4
Charge for the period	-	68.5	34.6[2]	103.1	11.5	26.1[2]	37.6
Disposals/transfers[1]	-	-	18.6	18.6	-	10.3	10.3
Balance on 31.12.2016	-	1,004.4	345.0	1,349.4	102.8	165.4	268.2
Translation differences	-	0.4	0.7	1.1	-	0.8	0.8
Charge for the period	-	72.7	45.4[3]	118.2	11.9	30.4[3]	42.3
Disposals/transfers[1]	-	-	7.4	7.4	-	16.9	16.9
Balance on 31.12.2017	-	1,077.5	383.7	1,461.2	114.7	179.7	294.4
Carrying value							
Balance on 31.12.2016	2,071.3	418.1	344.8	2,834.3	308.7	65.1	373.8
Balance on 31.12.2017	**2,073.0**	**352.8**	**446.5**	**2,872.4**	**300.4**	**56.2**	**356.6**

[1] Includes also derecognition of fully depreciated and amortised assets
[2] Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore
[3] Includes impairment of CHF 0.4 million related to software and other property and equipment not used anymore

	Balance on 01.01.2017 *CHF m*	Additions *CHF m*	Disposals *CHF m*	Translation differences *CHF m*	**Balance on 31.12.2017** *CHF m*
Goodwill					
Julius Baer Private Banking	1,634.4	4.7	-	2.9	**1,642.1**
GPS	119.6	-	-	-6.0	**113.6**
Kairos	317.3	-	-	0.1	**317.4**
Total	2,071.3	4.7	-	-3.0	**2,073.0**

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 20 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for the two subsidiaries GPS and Kairos, which are tested on a stand-alone basis. GPS and Kairos are each regarded a cash-generating unit 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. The Group expects in the medium and long term a favourable development of the private banking 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 private banking 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 8.0% (2016: 8.2%) for Julius Baer Private Banking. For GPS, the pre-tax discount rate used is 22.7% (2016: 21.6%), for Kairos, the pre-tax discount rate used is 13.8% (2016: 15.8%). The discount rates used in the calculation represent the Group's specific risk-weighted rates for the specific 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 the planning horizon 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 would not result in the carrying amount exceeding the recoverable amount except for the smallest CGU GPS. For this CGU, the value in use could start falling below the carrying amount if the discount rate used in the calculation is increased by 2% or the terminal growth rate is decreased by 2%.

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

13 OPERATING LEASE COMMITMENTS

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Not later than one year	**75.6**	67.0
Later than one year and not later than five years	**201.4**	180.6
Later than five years	**102.2**	119.4
Subtotal	**379.2**	366.9
Less sublease rentals received under non-cancellable leases	**20.1**	23.0
Total	**359.1**	343.9

Expenses for operating leases in the gross amount of CHF 74.8 million are included in operating expenses for the 2017 financial year (2016: CHF 67.3 million).

14 ASSETS PLEDGED OR CEDED TO SECURE OWN COMMITMENTS AND ASSETS SUBJECT TO RETENTION OF TITLE

		31.12.2017		31.12.2016
	Carrying value *CHF m*	Effective commitment *CHF m*	Carrying value *CHF m*	Effective commitment *CHF m*
Securities	**766.6**	**766.6**	976.2	976.2
Other	**14.8**	**4.8**	16.3	7.5
Total	**781.4**	**771.4**	992.4	983.6

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

15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2018 *CHF m*	2019 *CHF m*	2020 *CHF m*	2021 *CHF m*	2022 *CHF m*	2023–2027 *CHF m*	un-assigned *CHF m*	**31.12.2017** *CHF m*	31.12.2016 *CHF m*
Fixed rate	6,736.8	242.0	92.5	-	-	-	-	**7,071.4**	5,088.6
Interest rates (ranges in %)	0.1–57.06	2.0–15.12	2.0–8.54	-	-	-	-	**-**	-
Floating rate	999.1	430.1	355.0	305.2	86.0	459.9	2,130.1	**4,765.3**	3,355.8
Total	**7,736.0**	**672.1**	**447.5**	**305.2**	**86.0**	**459.9**	**2,130.1**	**11,836.7**	8,444.4

The Group issues to its private 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 57.06%. 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.

16 DEBT ISSUED

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Money market instruments	**122.1**	78.8
Bonds	**1,654.9**	1,134.7
Total	**1,777.0**	1,213.5

Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	**31.12.2017** Total *CHF m*	31.12.2016 Total *CHF m*
Julius Baer Group Ltd.						
2012[1]	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	**246.2**	248.7
Julius Baer Group Ltd.						
2014[2]	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	**347.8**	346.7
Julius Baer Group Ltd.						
2015[3]	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	**334.8**	318.6
Julius Baer Group Ltd.						
2016[4]	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	**236.4**	220.6
Julius Baer Group Ltd.						
2017[5]	4.75	Perpetual non-cumulative high-trigger additional tier 1 bond	USD	300.0	**290.1**	-
Julius Baer Group Ltd.						
2017[6]	0.375	Domestic senior unsecured bond	CHF	200.0	**199.6**	-
Total					**1,654.9**	1,134.7

1 Own bonds of CHF 3.7 million are offset with bonds outstanding (2016: CHF 1.0 million).
The effective interest rate amounts to 5.59%.
The bond will be paid back on the first possible redemption date (19 March 2018).
2 No own bonds are offset with bonds outstanding (2016: CHF 0.1 million).
The effective interest rate amounts to 4.41%.
3 No own bonds are offset with bonds outstanding (2016: none).
The effective interest rate amounts to 6.128%.
4 No own bonds are offset with bonds outstanding (2016: none).
The effective interest rate amounts to 5.951%.
5 No own bonds are offset with bonds outstanding.
The effective interest rate amounts to 4.91%.
6 No own bonds are offset with bonds outstanding.
The effective interest rate amounts to 0.32361%.

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.

2012 issue
The perpetual tier 1 subordinated bond was issued by Julius Baer Group Ltd. on 18 September 2012. The bonds can first be redeemed, at the Issuer's discretion, five and a half years after their issue date (i.e. on 19 March 2018). From the issue date to the reset date (19 March 2018) the bonds will pay interest at a fixed rate of 5.375% 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 4.98%. Interest on the bonds is payable annually in arrears on 19 March in each year.

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 20 March and 20 September in 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%.

17A DEFERRED TAX ASSETS

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Balance at the beginning of the year	**28.8**	23.8
Income statement – credit	**20.2**	4.1
Income statement – charge	**-9.9**	-3.6
Acquisition of subsidiaries	**-**	5.2
Recognised directly in OCI	**-0.1**	0.3
Translation differences and other adjustments	**-10.2**	-1.1
Balance at the end of the year	**28.8**	28.8

The components of deferred tax assets are as follows:

Operating loss carryforwards	**22.2**	21.6
Employee compensation and benefits	**10.4**	4.0
Financial investments available-for-sale	**-**	1.4
Property and equipment	**0.2**	0.3
Valuation adjustments on loans	**0.2**	1.5
Deferred tax assets before set-off[1]	**33.2**	105.3
Offset of intangible assets	**-4.3**	
Total	**28.8**	28.8

[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.

17B DEFERRED TAX LIABILITIES

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Balance at the beginning of the year	**77.8**	41.6
Income statement – charge	**0.2**	13.1
Income statement – credit	**-7.9**	-4.1
Acquisition of subsidiaries	**-**	9.1
Recognised directly in OCI	**1.6**	16.1
Translation differences and other adjustments	**-11.8**	2.1
Balance at the end of the year	**59.9**	77.8

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

Provisions	**2.7**	1.7
Property and equipment	**14.5**	15.0
Financial investments available-for-sale	**25.4**	24.9
Intangible assets	**35.2**	49.6
Other	**13.0**	14.1
Deferred tax liability before set-off[2]	**90.8**	105.3
Offset of pension liability taxes	**-22.7**	-27.5
Offset of provision	**-2.1**	-
Offset of employee compensation and benefits	**-2.8**	-
Offset of financial investments available-for-sale	**-1.5**	-
Offset of other	**-1.7**	-
Total	**59.9**	77.8

[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.

18 PROVISIONS

	Legal risks CHF m	Other CHF m	**2017** **Total** CHF m	2016 Total CHF m
Balance at the beginning of the year	**20.2**	**2.8**	**23.0**	575.2
Utilised during the year	**-5.4**	**-0.2**	**-5.6**	-564.8
Provisions made during the year	**24.1**	**12.5**	**36.6**	20.1
Provisions reversed during the year	**-9.1**	**-0.3**	**-9.4**	-5.3
Acquisition of subsidiaries	**-**	**-**	**-**	1.2
Translation differences	**0.3**	**-**	**0.3**	-3.4
Balance at the end of the year	**30.1**	**14.7**	**44.9**	23.0

Maturity of provisions				
Up to one year	**21.1**	**3.6**	**24.8**	11.1
Over one year	**9.0**	**11.1**	**20.1**	11.8

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 e.g. 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 confronted with information and clarification requests from authorities with respect to certain topics. The Group principally is cooperating with the competent authorities within the confines of applicable laws to clarify the situation while protecting its own interests.

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

Legal proceedings/contingent liabilities
The Group is involved in various legal, regulatory and administrative proceedings concerning matters arising within the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess.

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

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of 31 December 2017. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. (the 'Bank') and numerous other financial institutions by the liquidators of the Fairfield funds (the 'Fairfield Liquidators'), having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against the Bank, the Fairfield Liquidators are seeking to recover a total amount of approximately USD 64 million in the courts of New York (including USD 17 million that relates to redemption payments made to clients of ING Bank (Suisse) SA, which merged with the Bank in 2010, and approximately USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions). The proceedings in the courts of the British Virgin Islands, where an amount of approximately USD 8.5 million have been claimed from the Bank, were finally dismissed in favour of the Bank with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against the Bank, the Fairfield Liquidators have made combined claims in the amount of approximately USD 1.8 billion against more than 80 defendants. Only a fraction of this amount is sought against the Bank and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. Finally, in further proceedings, the trustee of Madoff's broker-dealer company (the 'Trustee') seeks to recover over USD 83 million in the courts of New York (including USD 46 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with the Bank in 2013, such claims being subject to acquisition-related representation and warranties provisions), largely in relation to the same redemption payments which are the subject matter of the claims asserted by the Fairfield Liquidators. Most of the aforementioned proceedings are in preliminary procedural stages. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In the proceedings initiated by the Trustee, the Bankruptcy Court in New York dismissed the case against the Bank and other defendants based on extraterritoriality principles in November 2016. The Trustee has appealed this ruling.

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

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

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

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994. BvS claims to be the German authority responsible for managing the assets of the former German Democratic Republic ('GDR'). BvS claims that the former Bank Cantrade Ltd., which the Bank acquired through its acquisition of Bank Ehinger & Armand von Ernst AG from UBS AG in 2005, allowed unauthorised withdrawals between 1990 and 1992 from the account of a foreign GDR trade company. The Zurich District Court has dismissed the claim on 9 December 2016. BvS has appealed such verdict. In addition, the claim has been notified by the Bank vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities.

In the context of an investigation against a former client regarding alleged participation in an environmental certificate trading-related tax fraud in France, a formal procedure into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014 and been dismissed for formal reasons by a Court Order in March 2017. The deposit in the amount of EUR 3.75 million made in October 2014 by the Bank with the competent French court as a precautionary measure representing the maximal fine possible accordingly having been reimbursed to the Bank, has been deposited again, as in July 2017, a new procedure with respect to the same matter has been initiated against the Bank. 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. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

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

In November 2014, Bank Julius Baer & Co. Ltd. was served in Geneva with a claim by an investment fund, acting on its behalf and on behalf of three other funds, that were former clients of Bank of China (Suisse) S.A. 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) S.A. acted not only as a custodian bank, but also as secured creditor and manager of the funds, and tolerated excess in leverage. It claims that the funds suffered a severe loss consequently to the liquidation of almost the entire portfolio of their assets in May 2010, arguing that this liquidation was performed by Bank of China (Suisse) SA without the consent of the funds' directors and was ill-timed, disorderly and occurred in exceptionally unusual market conditions. The Bank is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

Bank Julius Baer & Co. Ltd. has received inquiries from authorities investigating corruption and bribery allegations surrounding Fédération Internationale de Football Association (FIFA) in Switzerland and the USA. These requests focus on persons named in the so-called 'FIFA Indictment' of 20 May 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) and in the respective superseding indictment of 25 November 2015. The authorities in Switzerland and abroad have, in addition to the corruption and bribery allegations, opened investigations and are inquiring whether financial institutions failed to observe due diligence standards as applied in financial services and in particular in the context of anti-money laundering laws in relation to suspicious and potentially illegal transactions. The Bank is supporting the inquiries and cooperating with the authorities in the investigations on this matter.

19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	Number	*CHF m*
Balance on 01.01.2016	223,809,448	**4.5**
of which entitled to dividends	*223,809,448*	***4.5***
Balance on 31.12.2016	223,809,448	**4.5**
of which entitled to dividends	*223,809,448*	***4.5***
Balance on 31.12.2017	223,809,448	**4.5**
of which entitled to dividends	*223,809,448*	***4.5***

ADDITIONAL INFORMATION

20 REPORTING BY SEGMENT

The Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe, Asia and South America. This focus on pure-play private banking includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass commissions charged for servicing and advising private 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. The Executive Board of the Group as at 31 December 2017 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Communications Officer, Chief Operating Officer, General Counsel and Chief Risk Officer.

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 and Kairos 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

	31.12.2017 Total assets *CHF m*	31.12.2016 *CHF m*	**2017** Operating income *CHF m*	2016 *CHF m*	**2017** Investments *CHF m*	2016 *CHF m*
Switzerland	**84,623**	80,573	**1,897**	1,865	**128**	119
Europe (excl. Switzerland)	**29,328**	25,080	**664**	465	**7**	462
Americas	**1,045**	1,338	**109**	106	**1**	3
Asia and other countries	**26,618**	20,599	**722**	560	**47**	48
Less consolidation items	**43,696**	31,383	**139**	143		
Total	**97,918**	96,207	**3,252**	2,852	**183**	633

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.

22 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.

	2017 *CHF m*	2016 *CHF m*
1. Development of pension obligations and assets		
Present value of defined benefit obligation at the beginning of the year	**-2,687.3**	-2,597.9
Acquisitions	**-1.1**	-10.2
Current service cost	**-70.3**	-68.4
Employees' contributions	**-42.9**	-39.0
Interest expense on defined benefit obligation	**-16.9**	-21.5
Past service cost, curtailments, settlements, plan amendments	**-1.3**	57.9
Benefits paid (including benefits paid directly by employer)	**52.3**	40.4
Transfer payments in/out	**-0.1**	-0.5
Experience gains/(losses) on defined benefit obligation	**-62.0**	-18.3
Actuarial gains/(losses) arising from change in demographic assumptions	**-101.3**[1]	4.9
Actuarial gains/(losses) arising from change in financial assumptions	**15.8**	-47.9
Translation differences	**-6.7**	13.1
Present value of defined benefit obligation at the end of the year	**-2,921.8**	-2,687.3
whereof due to active members	***-1,896.6***	*-1,701.3*
whereof due to deferred members	***-86.7***	*-83.4*
whereof due to pensioners	***-938.4***	*-902.6*
Fair value of plan assets at the beginning of the year	**2,550.4**	2,346.6
Acquisitions	**0.9**	6.6
Interest income on plan assets	**16.1**	20.2
Employees' contributions	**42.9**	39.0
Employer's contributions	**94.7**	106.1
Curtailments, settlements, plan amendments	**-0.6**	-0.6
Benefits paid by fund	**-52.1**	-40.4
Transfer payments in/out	**0.1**	0.5
Administration cost (excluding asset management cost)	**-1.0**	-0.9
Return on plan assets (excluding interest income)	**152.2**	85.8
Translation differences	**5.0**	-12.5
Fair value of plan assets at the end of the year	**2,808.6**	2,550.4

[1] In 2017, the Group refined its approach for estimating the life expectancy of the plan participants, using the BVG 2015 mortality table with future improvements determined by calibrating the Continuous Mortality Investigation ('CMI') 2016 model to Swiss population data with a long term rate of 1.75%. This change in demographic assumption resulted in an increase of the defined benefit obligation of CHF 93.1 million which was recognised in other comprehensive income.

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
2. Balance sheet		
Fair value of plan assets	**2,808.6**	2,550.4
Present value of defined benefit obligation	**-2,918.1**	-2,683.9
Present value of unfunded benefit obligation	**-3.7**	-3.4
Net defined benefit asset/(liability)	**-113.2**	-136.9

	2017 CHF m	2016 CHF m
3. Income statement		
Current service cost	**-70.3**	-68.4
Interest expense on defined benefit obligation	**-16.9**	-21.5
Past service cost, curtailments, settlements, plan amendments	**-1.9**	57.3[1]
Interest income on plan assets	**16.1**	20.2
Administration cost (excluding asset management cost)	**-1.0**	-0.9
Defined benefit cost recognised in the income statement	**-74.0**	-13.2
whereof service cost	***-73.2***	*-12.0*
whereof net interest on the net defined benefit/(liability) asset	***-0.8***	*-1.3*

[1] In 2016, the Group amended its defined benefit plans in Switzerland and therefore recalculated its defined benefit obligation (DBO). The amendments are related to a lower conversion rate, a higher pension age and higher savings contributions and resulted in a reduction of the defined benefit obligation by CHF 62.8 million, which was recognised in the income statement.

4. Movements in defined benefit liability		
Net defined benefit asset/(liability) at the beginning of the year	**-136.9**	-251.3
Acquisitions	**-0.2**	-3.6
Translation differences	**-1.6**	0.6
Defined benefit cost recognised in the income statement	**-74.0**	-13.2
Benefits paid by employer	**0.2**	0.0
Employer's contributions	**94.7**	106.1
Remeasurements of the net defined benefit liability/(asset)	**4.7**	24.5
Amount recognised in the balance sheet	**-113.2**	-136.9

Remeasurements of the net defined benefit liability/(asset)		
Actuarial gains/(losses) of defined benefit obligation	**-147.5**	-61.3
Return on plan assets (excluding interest income)	**152.2**	85.8
Total recognised in other comprehensive income	**4.7**	24.5

5. Composition of plan assets		
Cash	**132.8**	125.1
Debt instruments	**751.6**	776.6
Equity instruments	**909.1**	757.0
Real estate	**456.2**	408.0
Alternative investments	**291.5**	262.9
Other	**267.4**	220.6
Total	**2,808.6**	2,550.4

6. Aggregation of plan assets – quoted market prices in active markets	**2017** *in %*	2016 *in %*
Cash	**4.7**	4.9
Debt instruments	**23.6**	29.2
Equity instruments	**32.4**	29.7
Real estate	**7.8**	7.2
Other	**9.0**	13.5
Total	**77.5**	84.5

7. Sensitivities	**2017** *CHF m*	2016 *CHF m*
Decrease of discount rate -0.25%		
Effect on defined benefit obligation	**-84.4**	-73.4
Effect on service cost	**-2.8**	-2.4
Increase of discount rate +0.25%		
Effect on defined benefit obligation	**79.7**	69.4
Effect on service cost	**2.6**	2.2
Decrease of salary increase -0.25%		
Effect on defined benefit obligation	**9.8**	9.0
Effect on service cost	**1.0**	0.9
Increase of salary increase +0.25%		
Effect on defined benefit obligation	**-10.1**	-9.2
Effect on service cost	**-1.0**	-0.9
Life expectancy		
Increase in longevity by one additional year	**57.7**	53.3

Actuarial calculation of pension assets and obligations
The latest actuarial calculation was carried out as at 31 December 2017. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2016: 96%) of all benefit obligations and plan assets:

	2017	2016
Discount rate	**0.60%**	0.55%
Average future salary increases	**0.50%**	0.50%
Future pension increases	**0.00%**	0.00%
Duration (years)	**15**	14

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 2018 financial year related to defined benefit plans are estimated at CHF 91.0 million.

Outstanding liabilities to pension plans
The Group had outstanding liabilities to various pension plans in the amount of CHF 8.0 million (2016: CHF 8.2 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 32.5 million for the 2017 financial year (2016: CHF 27.4 million).

23 SECURITIES TRANSACTIONS

Securities lending and borrowing transactions / repurchase and reverse repurchase transactions

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Receivables		
Receivables from cash provided in securities borrowing transactions	**56.6**	16.2
of which recognised in due from banks	***56.6***	*16.2*
Receivables from cash provided in reverse repurchase transactions	**2.6**	1.4
of which recognised in due from banks	***2.6***	*1.4*
Obligations		
Obligations to return cash received in securities lending transactions	**988.1**	1,301.2
of which recognised in due to banks	***988.1***	*1,301.2*
Obligations to return cash received in repurchase transactions	**206.3**	248.3
of which recognised in due to banks	***206.3***	*248.3*
Securities collateral		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	**2,470.1**	2,342.3
of which securities the right to pledge or sell has been granted without restriction	***2,470.1***	*2,342.3*
of which recognised in trading assets	***1,547.7***	*1,543.2*
of which recognised in financial investments available-for-sale	***922.4***	*799.1*
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	**2,872.3**	2,138.7
of which repledged or resold securities	***2,834.7***	*2,032.3*

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 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.

24 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	77,030.3	568.2	599.9
Futures	121.6	0.5	0.6
Cross-currency swaps	620.6	9.0	2.8
Options (OTC)	34,809.0	323.7	190.0
Total foreign exchange derivatives 31.12.2017	**112,581.5**	**901.3**	**793.3**
Total foreign exchange derivatives 31.12.2016	108,499.1	1,264.9	1,088.0
Interest rate derivatives			
Swaps	12,870.4	94.8	84.4
Futures	696.8	1.1	1.5
Options (OTC)	196.4	10.9	13.0
Total interest rate derivatives 31.12.2017	**13,763.6**	**106.8**	**98.9**
Total interest rate derivatives 31.12.2016	9,851.1	123.2	112.0
Precious metals derivatives			
Forward contracts	2,875.9	45.1	31.9
Futures	812.4	1.2	0.2
Options (OTC)	2,836.9	129.0	19.7
Options (traded)	165.5	0.0	4.0
Total precious metals derivatives 31.12.2017	**6,690.7**	**175.4**	**55.9**
Total precious metals derivatives 31.12.2016	4,656.5	211.2	99.1
Equity/indices derivatives			
Futures	1,103.9	11.1	11.6
Options (OTC)	11,114.4	257.7	289.4
Options (traded)	12,146.4	489.9	750.3
Total equity/indices derivatives 31.12.2017	**24,364.7**	**758.7**	**1,051.4**
Total equity/indices derivatives 31.12.2016	21,641.6	1,077.9	894.7
Other derivatives			
Futures	168.7	0.8	5.3
Total other derivatives 31.12.2017	**168.7**	**0.8**	**5.3**
Total other derivatives 31.12.2016	144.1	0.5	2.7

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	316.1	0.2	6.6
Total return swaps	70.4	2.5	0.0
Total credit derivatives 31.12.2017	**386.5**	**2.6**	**6.6**
Total credit derivatives 31.12.2016	401.0	2.4	17.1
Total derivatives held for trading 31.12.2017	**157,955.7**	**1,945.6**	**2,011.3**
Total derivatives held for trading 31.12.2016	145,193.5	2,680.1	2,213.5

Derivatives held for hedging

Derivatives designated as fair value hedges			
Interest rate swaps	2,590.9	17.1	47.9
Total derivatives held for hedging 31.12.2017	**2,590.9**	**17.1**	**47.9**
Total derivatives held for hedging 31.12.2016	2,171.1	10.8	71.9
Total derivative financial instruments 31.12.2017	**160,546.6**	**1,962.7**	**2,059.2**
Total derivative financial instruments 31.12.2016	147,364.6	2,690.9	2,285.3

25A FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	Carrying value CHF m	31.12.2017 Fair value CHF m	Carrying value CHF m	31.12.2016 Fair value CHF m
Cash, loans and receivables				
Cash	**10,862.9**	**10,862.9**	13,599.5	13,599.5
Due from banks	**8,308.9**	**8,313.9**	11,389.8	11,395.5
Loans	**46,623.7**	**47,035.5**	38,419.0	38,873.2
Accrued income	**311.7**	**311.7**	282.8	282.8
Total	**66,107.2**	**66,524.0**	63,691.1	64,151.0
Held for trading				
Trading assets	**11,255.9**	**11,255.9**	7,261.8	7,261.8
Derivative financial instruments	**1,945.6**	**1,945.6**	2,680.1	2,680.1
Total	**13,201.5**	**13,201.5**	9,941.9	9,941.9
Derivatives designated as hedging instruments				
Derivative financial instruments	**17.1**	**17.1**	10.8	10.8
Total	**17.1**	**17.1**	10.8	10.8
Designated at fair value				
Financial assets designated at fair value	**277.3**	**277.3**	252.4	252.4
Total	**277.3**	**277.3**	252.4	252.4
Available-for-sale				
Financial investments available-for-sale	**12,246.5**	**12,246.5**	18,266.6	18,266.6
Total	**12,246.5**	**12,246.5**	18,266.6	18,266.6
Total financial assets	**91,849.6**	**92,266.4**	92,162.8	92,622.7

Financial liabilities

	31.12.2017 Carrying value CHF m	31.12.2017 Fair value CHF m	31.12.2016 Carrying value CHF m	31.12.2016 Fair value CHF m
Financial liabilities at amortised costs				
Due to banks	**7,209.5**	**7,209.6**	10,076.8	10,076.9
Due to customers	**67,636.8**	**67,640.3**	67,495.2	67,496.9
Debt issued	**1,777.0**	**1,839.2**	1,213.5	1,254.0
Accrued expenses	**192.7**	**192.7**	187.7	187.7
Total	**76,816.0**	**76,881.8**	78,973.2	79,015.5
Held for trading				
Trading liabilities	**135.8**	**135.8**	159.0	159.0
Derivative financial instruments	**2,011.3**	**2,011.3**	2,213.5	2,213.5
Total	**2,147.1**	**2,147.1**	2,372.4	2,372.4
Derivatives designated as hedging instruments				
Derivative financial instruments	**47.9**	**47.9**	71.9	71.9
Total	**47.9**	**47.9**	71.9	71.9
Designated at fair value				
Financial liabilities designated at fair value	**11,836.7**	**11,836.7**	8,444.4	8,444.4
Other liabilities	**32.8**[1]	**32.8**	41.2[2]	41.2
Total	**11,869.5**	**11,869.5**	8,485.6	8,485.6
Total financial liabilities	**90,880.6**	**90,946.3**	89,903.1	89,945.5

1 Relates to the deferred purchase price of Fransad Gestion SA, GPS Investimentos Financeiros e Participações S.A. and Wergen & Partner Vermögensverwaltungs AG, see Notes 26B and 27.

2 Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

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

Short-term financial instruments
Financial instruments with a maturity or a refinancing profile of one year or less are generally classified as short-term. This applies for the balance sheet items cash and money market instruments. Depending on the maturity, it also includes the following: 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
Depending on the maturity, these include the following balance sheet items: due from banks, loans, due to banks, due to customers and debt issued. The fair value of long-term financial instruments which have a maturity or a refinancing profile of more than one year is derived by using the net present value method. 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.

Trading assets and liabilities, financial investments available-for-sale, derivative financial instruments and financial liabilities designated at fair value
Refer to Note 25B for details regarding the valuation of these instruments.

25B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

Level 1
For trading assets as well as for certain financial investments available-for-sale and exchange-traded derivatives whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices.

Level 2
For financial instruments for which quoted market prices are not directly available or are not derived from active markets, fair values are estimated using valuation techniques or models based wherever possible on assumptions supported by observable market prices or rates existing on the balance sheet date. This is the case for the majority of OTC derivatives, most unquoted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied to these financial instruments include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model. The values derived from applying these models and techniques are significantly impacted by the choice of the valuation model used and the underlying assumptions made, such as the amounts and timing of future cash flows, discount rates, volatility, or credit risk.

Level 3
For certain financial instruments, neither quoted market prices nor valuation techniques or models based on observable market prices are available for determining the fair value. In these cases, fair value is estimated indirectly using valuation techniques or models based on reasonable assumptions reflecting market conditions.

Financial investments available-for-sale: The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may have an influence on the valuation (adjusted net asset method). In 2017, dividends related to these investments in the amount of CHF 6.7 million (2016: CHF 7.3 million) have been recognised in the income statement.

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

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

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

	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	31.12.2017 Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	1,918.2	352.5	-	2,270.7
Trading assets – equity instruments	6,991.4	1,993.8	-	8,985.2
Total trading assets	**8,909.6**	**2,346.3**	**-**	**11,255.9**
Foreign exchange derivatives	5.0	896.3	-	901.3
Interest rate derivatives	1.1	122.8	-	123.9
Precious metal derivatives	1.2	174.1	-	175.4
Equity/indices derivatives	11.1	747.6	-	758.7
Credit derivatives	-	2.6	-	2.6
Other derivatives	0.8	-	-	0.8
Total derivative financial instruments	**19.2**	**1,943.5**	**-**	**1,962.7**
Financial assets designated at fair value	**14.0**	**108.9**	**154.4**	**277.3**
Financial investments available-for-sale – money market instruments	249.8	1,941.3	-	2,191.1
Financial investments available-for-sale – debt instruments	8,908.9	959.7	-	9,868.6
Financial investments available-for-sale – equity instruments	33.4	7.8	145.6	186.8
Total financial investments available-for-sale	**9,192.1**	**2,908.8**	**145.6**	**12,246.5**
Total assets	**18,134.8**	**7,307.6**	**300.0**	**25,742.4**
Short positions – debt instruments	9.4	-	-	9.4
Short positions – equity instruments	82.4	44.0	-	126.5
Total trading liabilities	**91.8**	**44.0**	**-**	**135.8**
Foreign exchange derivatives	5.0	788.3	-	793.3
Interest rate derivatives	1.5	145.3	-	146.8
Precious metal derivatives	0.2	55.6	-	55.9
Equity/indices derivatives	11.6	1,039.7	-	1,051.4
Credit derivatives	-	6.6	-	6.6
Other derivatives	5.3	-	-	5.3
Total derivative financial instruments	**23.7**	**2,035.5**	**-**	**2,059.2**
Financial liabilities designated at fair value	**-**	**11,557.6**	**279.1**	**11,836.7**
Total liabilities	**115.5**	**13,637.1**	**279.1**	**14,031.7**

31.12.2016	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
Assets and liabilities measured at fair value				
Trading assets – debt instruments	1,368.3	46.7	-	1,415.0
Trading assets – equity instruments	5,465.6	381.3	-	5,846.9
Total trading assets	6,833.9	428.0	-	7,261.8
Foreign exchange derivatives	8.6	1,256.3	-	1,264.9
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.3	209.9	-	211.2
Equity/indices derivatives	48.5	1,029.4	-	1,077.9
Credit derivatives	-	2.4	-	2.4
Other derivatives	0.5	-	-	0.5
Total derivative financial instruments	60.2	2,630.7	-	2,690.9
Financial assets designated at fair value	128.3	29.2	94.8	252.4
Financial investments available-for-sale – money market instruments	596.4	3,188.7	-	3,785.0
Financial investments available-for-sale – debt instruments	13,402.1	914.0	-	14,316.0
Financial investments available-for-sale – equity instruments	26.0	18.8	120.7	165.5
Total financial investments available-for-sale	14,024.5	4,121.4	120.7	18,266.6
Total assets	21,046.9	7,209.3	215.5	28,471.7
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
Total trading liabilities	140.5	18.4	-	159.0
Foreign exchange derivatives	6.4	1,081.6	-	1,088.0
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	0.0	99.0	-	99.1
Equity/indices derivatives	43.0	851.7	-	894.7
Credit derivatives	-	17.1	-	17.1
Other derivatives	2.7	-	-	2.7
Total derivative financial instruments	53.8	2,231.5	-	2,285.3
Financial liabilities designated at fair value	-	8,180.8	263.6	8,444.4
Total liabilities	194.4	10,430.7	263.6	10,888.7

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

				31.12.2017
	Quoted market price Level 1 *CHF m*	Valuation technique market-observable inputs Level 2 *CHF m*	Valuation technique non-market-observable inputs Level 3 *CHF m*	**Total** *CHF m*
Assets and liabilities disclosed at fair value				
Cash	10,862.9	-	-	10,862.9
Due from banks	-	8,313.9	-	8,313.9
Loans	-	47,035.5	-	47,035.5
Accrued income	-	311.7	-	311.7
Total assets	**10,862.9**	**55,661.1**	**-**	**66,524.0**
Due to banks	-	7,209.6	-	7,209.6
Due to customers	-	67,640.3	-	67,640.3
Debt issued	1,839.2	-	-	1,839.2
Accrued expenses	-	192.7	-	192.7
Other liabilities	-	-	32.8	32.8
Total liabilities	**1,839.2**	**75,042.6**	**32.8**	**76,914.6**

				31.12.2016
	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*
Assets and liabilities disclosed at fair value				
Cash	13,599.5	-	-	13,599.5
Due from banks	-	11,395.5	-	11,395.5
Loans	-	38,873.2	-	38,873.2
Accrued income	-	282.8	-	282.8
Total assets	13,599.5	50,551.5	-	64,151.0
Due to banks	-	10,076.9	-	10,076.9
Due to customers	-	67,496.9	-	67,496.9
Debt issued	1,254.0	-	-	1,254.0
Accrued expenses	-	187.7	-	187.7
Other liabilities	-	-	41.2	41.2
Total liabilities	1,254.0	77,761.5	41.2	79,056.7

25C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	31.12.2017 *CHF m*	31.12.2016 *CHF m*
Transfers from level 1 to level 2		
Trading assets	417.7	1.3
Trading liabilities	10.0	-
Transfers from level 2 to level 1		
Trading assets	57.8	244.0
Financial investments available-for-sale	22.6	2,141.4
Trading liabilities	2.6	0.5

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.

25D FINANCIAL INSTRUMENTS – OFFSETTING

As a private bank, the Group aims to enter 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 59.3 million (2016: CHF 17.6 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,194.5 million (2016: CHF 1,549.5 million) as disclosed in Note 23 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 1,458.1 million (positive replacement values) and CHF 1,285.6 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 1,618.6 million (2016: CHF 664.3 million) which could be offset with the corresponding outstanding amount.

Refer to the Credit Risk section for further analysis of the Group's credit risk strategies and exposure.

26A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2017

Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital m	Capitalisation as at 31.12.2017 m
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	13,339

Swiss securities number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

Unlisted operational companies which are consolidated

	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, Dubai, Istanbul,				
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 Europe AG	Frankfurt	EUR	15.000	100
Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich,				
Stuttgart, Würzburg				
including				
Julius Bär Capital GmbH	*Frankfurt*	*EUR*	*0.026*	*100*
Bank Julius Baer Luxembourg S.A.	Luxembourg	EUR	120.165	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	85.000	100
Julius Baer Bank & Trust (Bahamas) Ltd.	Nassau	CHF	20.000	100

Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
including				
Julius Baer Consultores S.A.	*Caracas*	*BSF*	*2.150*	*100*
Julius Baer Trust Company (Singapore) Ltd.	*Singapore*	*SGD*	*2.812*	*100*

	Head Office	Currency	Share capital *m*	Equity interest *%*
JB Participações Brasil Ltda.	São Paulo	BRL	394.016	100
including				
GPS Investimentos Financeiros e Participações S.A.	*São Paulo*	*BRL*	*0.280*	*100*
including				
GPS Planejamento Financeiro Ltda.	*São Paulo*	*BRL*	*0.207*	*100*
Branches in Rio de Janeiro, Belo Horizonte				
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
Julius Baer (Chile) SpA	Santiago de Chile	CLP	498.928	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	4.164	100
Julius Baer Family Office & Trust Ltd.	Zurich	CHF	0.100	100
including				
Julius Baer Trust Company (New Zealand) Limited	*Auckland*	*CHF*	*0.105*	*100*
Julius Baer Fiduciaria S.p.A.	Milan	EUR	0.100	100
Julius Baer Financial Services (Channel Islands) Ltd.	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	122.200	100
Branches in Dublin, Leeds, Manchester				

	Head Office	Currency	Share capital m	Equity interest %
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 S.A.S. (in liquidation)	Paris	EUR	3.811	100
Julius Baer Investments (Panama) S.A.	Panama City	USD	22.630	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Portfolio Managers Limited	London	GBP	0.054	100
Julius Baer Trust Company (Channel Islands) Limited	Guernsey	CHF	0.065	100
Julius Baer Wealth Advisors (India) Private Limited	Mumbai	INR	10,081.410	100
Branches in Bangalore, Chennai, Kolkata, New Delhi				
including				
Julius Baer Capital (India) Private Limited	*Mumbai*	*INR*	*2,334.350*	*100*
Julius Bär Wealth Management AG	Zurich	CHF	5.700	100
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
Julius Baer (Netherlands) B.V.	Amsterdam	EUR	0.000	100
Julius Baer (Uruguay) S.A. (in liquidation)	Montevideo	UYU	25.169	100
Kairos Investment Management S.p.A.	Milan	EUR	2.355	80
including				
KAIROS ASSET MANAGEMENT SA	*Lugano*	*EUR*	*0.600*	*100*
Kairos Investment Management B.V.	*Amsterdam*	*EUR*	*1.000*	*100*
– including Kairos Investment Management Limited	*London*	*GBP*	*5.884*	*100*
Kairos Julius Baer SIM S.p.A.	*Milan*	*EUR*	*10.000*	*100*
– Representative Offices in Rome, Turin				
Kairos Partners SGR S.p.A.	*Milan*	*EUR*	*5.084*	*100*

	Head Office	Currency	Share capital m	Equity interest %
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia (in liquidation)	Jakarta	IDR	6,725.000	100
Wergen & Partner Vermögensverwaltungs AG	Zurich	CHF	0.100	100
Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten	Zurich	CHF	2.260	100
LOTECO Foundation	Zurich	CHF	0.100	100

Major changes in the companies consolidated:

- Julius Baer Investment Services S.à r.l., Luxembourg, merged with Bank Julius Baer Luxembourg S.A., Luxembourg
- Wergen & Partner Vermögensverwaltungs AG, Zurich, new
- WMPartners Wealth Management Ltd., Zurich, merged with Bank Julius Baer & Co. Ltd., Zurich

26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital m	Equity interest %
Associates				
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.903	40

	31.12.2017 CHF m	31.12.2016 CHF m
Balance at the beginning of the year	**29.4**	90.3
Disposals	**-**	-99.8[1]
Income	**1.9**	48.7[2]
Dividend paid	**-1.9**	-10.2
Translation differences	**-1.2**	0.4
Balance at the end of the year	**28.2**	29.4

1 Relates to the increase of the Group's participation in Kairos, see Note 27.
2 Includes the revaluation to fair value of Kairos.

The total comprehensive income of the associated companies amounts to CHF 5.0 million (2016: CHF 3.6 million).

NSC Asesores (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 options will be exercisable in 2018 and 2021, respectively.

26C 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.

27 ACQUISITIONS

The following transactions were executed:

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

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

The assets and liabilities of Wergen & Partner Vermögensverwaltungs AG were recorded provisionally as follows:

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

Kairos (2016)
The Group agreed to exercise its option and to increase its stake in Kairos Investment Management S.p.A. by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. The transaction was exercised on 1 April 2016. The Group paid the consideration for this additional interest in the amount of CHF 301.5 million in cash which was fully funded by existing excess capital of the Group. As part of the transaction, the Group realised a net gain in the amount of CHF 38.6 million on the revaluation to fair value of the 19.9% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2016.

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

The assets and liabilities of Kairos were recorded as follows (unchanged since 2016):

	Fair value *CHF m*
Purchase price	
in cash	301.5
contribution of the 19.9% interest (at fair value)	99.8
Total	401.4
Due from banks	31.9
Deferred tax assets	5.2
All other assets	23.2
Assets acquired	60.3
Deferred tax liabilities	7.1
All other liabilities	37.3
Liabilities assumed	44.3
Goodwill and other intangible assets and non-controlling interests	
Goodwill	317.3
Customer relationships	89.4
Non-controlling interests	21.3
Total	385.4

Julius Bär Wealth Management AG (formerly named TFM Asset Management AG) (2016)
On 1 April 2016, the Group exercised its call option to acquire the outstanding 40% interest in its Japanese-market-focused subsidiary Julius Bär Wealth Management AG (JBWM), formerly named TFM Asset Management AG. The Group paid CHF 2.5 million in cash for this additional interest which was fully funded by existing excess capital of the Group. JBWM, a Switzerland-registered independent asset management company, specialises in discretionary asset management services for HNW Japanese and Swiss private clients and holds investment advisory and investment management licences granted by the Japanese FSA.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 2.1 million between the amount of the former non-controlling interest 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.

Commerzbank International S.A. Luxembourg/ Bank Julius Baer Luxembourg S.A., Luxembourg (2016)
On 4 July 2016, the Group acquired Commerzbank International S.A. Luxembourg, a fully licensed private bank. This transaction significantly strengthened the Group's presence in Luxembourg and in addition provided the Group with further strategic flexibility for its European business, also due to the included booking platform. The purchase price of CHF 84.9 million was paid in cash and fully funded by existing excess capital of the Group. The acquired entity has been renamed into Bank Julius Baer Luxembourg S.A., Luxembourg.

The assets and liabilities of Commerzbank International S.A. Luxembourg/Bank Julius Baer Luxembourg S.A. were recorded as follows (unchanged since 2016):

	Fair value *CHF m*
Purchase price	
in cash	84.9
Total	84.9
Cash	272.9
Due from banks	637.8
Loans[1]	344.6
Software	1.9
All other assets	78.7
Assets acquired	1,335.8
Due to banks	27.2
Due to customers	1,249.1
Provisions	1.2
Deferred tax liabilities	2.0
All other liabilities	15.9
Liabilities assumed	1,295.5
Goodwill and other intangible assets	
Goodwill	19.0
Customer relationships	15.2
Software	10.3
Total	44.6

[1] At the acquisition date, the gross contractual amount of loans acquired was CHF 344.6 million.

GPS Investimentos Financeiros e Participações S.A. (2016)
On 1 March 2016, the Group exercised the forward contract to acquire the remaining 20% interest of its Brazilian subsidiary GPS Investimentos Financeiros e Participações S.A. (GPS). The purchase price of CHF 28.6 million is payable in four yearly tranches, whereof the first two tranches have been paid and were fully funded by existing excess capital of the Group. The outstanding amounts of the future instalments are recognised as a liability.

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 21.5 million between the amount of the former non-controlling interest 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.

29 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 where 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

	2017 *CHF m*	2016 *CHF m*	Change *%*
Assets with discretionary mandate	**62,781**	54,904	14.3
Other assets under management	**318,941**	277,083	15.1
Assets in collective investment schemes managed by the Group[1]	**6,700**	4,174	60.5
Total assets under management (including double counting)	**388,422**	336,161	15.5
of which double counting	***9,963***	*6,106*	*63.2*
Change through net new money	**22,157**	11,865	
Change through market and currency impacts	**35,912**	13,395	
Change through acquisition	**395**[2]	11,267[3]	
Change through divestment	**-97**[4]	-53[4]	
Change through other effects	**-6,106**[5]	-	
Client assets	**457,134**	391,620	16.7

[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 February 2017, the Group acquired Wergen & Partner Vermögensverwaltungs AG, Zurich.
[3] In April 2016, the Group increased its participation in Kairos Investment Management S.p.A., Milan, to 80%.
In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.
[4] Assets under management were affected by the Group's decision to discontinue its offering to clients from a number of selected countries.
[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

	2017 %	2016 %
By types of investment		
Equities	**28**	27
Bonds (including convertible bonds)	**19**	19
Investment funds	**26**	24
Money market instruments	**3**	3[1]
Client deposits	**18**	20[1]
Structured products	**5**	5
Other	**1**	2
Total	**100**	100

[1] Reversal of a restatement

	2017 %	2016 %
By currencies		
CHF	**10**	11
EUR	**23**	22
USD	**45**	45
GBP	**4**	4
SGD	**2**	2
HKD	**4**	3
RUB	**1**	1
CAD	**1**	1
Other	**10**	11
Total	**100**	100

30 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, changes in the fair value of financial investments available-for-sale are directly recognised in equity. Under Swiss GAAP, such investments are recorded at the lower of cost or market, with changes in value where required recorded in the income statement.

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.

31 EVENTS AFTER THE BALANCE SHEET DATE

On 9 January 2018, the Group announced to increase its stake in Kairos Investment Management SpA from 80% to 100%. The consideration for the additional 20% stake is EUR 96 million, subject to closing adjustments. Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference between the amount of the former non-controlling interest and the fair value of the consideration paid will be recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities will be recognised.

There are no events to report that had an influence on the balance sheet or the income statement for the 2017 financial year.