

# Julius Bär

## **Bank Julius Baer & Co. Ltd., Zurich**

(Banque Julius Baer & Cie SA, Bank Julius Bär & Co. AG, Banca Julius Baer & Co. SA), a corporation with limited liability under the laws of Switzerland ("**BJB**"), acting through its head office or a designated branch (the "**Issuer**")

## **Registration Document**

pursuant to Section 12 Paragraph 1 Sentence 3 of the German Securities Prospectus Act (*Wertpapierprospektgesetz*)

dated 19 June, 2018

# Julius Bär

## **Bank Julius Bär & Co. AG, Zürich**

(Banque Julius Baer & Cie SA, Bank Julius Baer & Co. Ltd., Banca Julius Baer & Co. SA), eine nach Schweizer Recht organisierte Aktiengesellschaft (die "**BJB**"), handelnd durch ihren Hauptsitz oder eine dazu bestimmte Zweigniederlassung (die "**Emittentin**")

## **Registrierungsformular**

gemäss § 12 Absatz 1 Satz 3 des Wertpapierprospektgesetzes

vom 19. Juni 2018

## CONTENTS

## INHALTSVERZEICHNIS

I.	RISK FACTORS	3	I.	RISIKOFAKTOREN	3
II.	BANK JULIUS BAER & CO. LTD., ZURICH	22	II.	BANK JULIUS BÄR & CO. AG, ZÜRICH	22
1.	General Information about BJB	22	1.	Allgemeine Informationen über BJB	22
2.	Statutory Auditors of BJB	25	2.	Abschlussprüfer   Gesetzliche Revisionsstelle der BJB	25
3.	Business overview of BJB	25	3.	Geschäftsüberblick der BJB	25
4.	Trend Information regarding the Business Prospects	27	4.	Trendinformationen in der Geschäftsentwicklung	27
5.	Management of BJB	27	5.	Geschäftsführung der BJB	27
6.	Share Capital of BJB and Main Shareholders of Julius Baer Group Ltd.	34	6.	Aktienkapital der BJB und Hauptgesellschafter der Julius Bär Gruppe AG	34
7.	Audit Committee of BJB	35	7.	Audit Committee der BJB	35
8.	Historical Financial Information of BJB	35	8.	Historische Finanzinformationen der BJB	35
9.	Interim and other Financial Information	36	9.	Zwischeninformationen und sonstige Finanzinformationen	36
10.	Significant changes in the financial positions of BJB and its consolidated subsidiaries	36	10.	Wesentliche Änderungen in der Finanzlage von BJB und ihren konsolidierten Tochtergesellschaften	36
11.	Legal and arbitration proceedings relating to BJB	37	11.	Gerichts-, und Schiedsverfahren betreffend die BJB	37
12.	Material Contracts	42	12.	Wesentliche Verträge	42
III.	GENERAL INFORMATION	43	III.	ALLGEMEINE INFORMATIONEN	43
1.	Responsibility statement	43	1.	Verantwortlichkeitserklärung	43
2.	Publication and validity of the Registration Document	43	2.	Veröffentlichung und Gültigkeit des Registrierungsformulars	43
3.	Documents Available for Inspection	44	3.	Einsehbare Dokumente	44
Appendix 1:	BJB Consolidated Financial Statements 2016	F-1	Appendix 1:	BJB Konsolidierte Finanzinformationen 2016	F-1
Appendix 2:	BJB Consolidated Financial Statements 2017	G-1	Appendix 2:	BJB Konsolidierte Finanzinformationen 2017	G-1
Appendix 3:	BJB Financial Statements 2017	H-1	Appendix 3:	BJB Finanzinformationen 2017	H-1

## I. RISK FACTORS

### I. RISK FACTORS

BJB is exposed to a variety of risks that could adversely affect its results of operations, financial condition and prospects. In case one or more of these risks materialises, the Issuer may not be able to fulfil all or a part of its obligations under products and investors in products could lose all or a part of their investment in, and any expected return on, products.

An investor assumes with the purchase of products of BJB next to product specific risks also the counterparty risk, i.e. the risk that BJB at due redemption date is unable to fulfil its payment obligations. The following description, which is not exhaustive, entails according to BJB the most significant risks, which in light of current understanding could impair BJB's ability to fulfil its obligations towards the investors of products issued by BJB. The order in which the following risk factors are presented is not an indication of the likelihood of their occurrence or their importance. Also to be taken into account is the fact that the risk factors described below may also apply cumulatively and therefore their effect may be increased as a result.

The materialisation of one or more of the risk factors described below may have considerable negative effects on BJB's results of operation, business and financial position. As a result investors may lose part or all of their investment (i.e. the total loss of their invested capital may occur). The decision on any investment must be made on the basis of an independent examination made by the potential investor and, insofar as the investor considers it necessary, on the basis of professional advice, such as that provided by an investment advisor.

**A deterioration of BJB's credit ratings could result in increased funding costs, may adversely affect client's perceptions of BJB and/or may have a material adverse impact on BJB's liquidity and/or on the market value of products issued by BJB**

BJB's credit rating affects both the terms on which creditors are willing to transact with BJB and the willingness of clients to do business with BJB. Because the interest rate and other terms of BJB's debt agreements depend, amongst other, on its credit rating, any deterioration in its credit rating or a negative outlook

## I. RISIKOFAKTOREN

### I. RISIKOFAKTOREN

Die BJB ist einer Vielzahl von Risiken ausgesetzt, die sich ungünstig auf ihr Geschäftsergebnis oder ihre finanzielle Lage und Aussichten auswirken könnten. Verwirklicht sich eines oder mehrere dieser Risiken, kann die Emittentin ihre Verpflichtungen aus Produkten unter Umständen nicht oder nur teilweise erfüllen, und Anleger in Produkte könnten ihr gesamtes in Produkte angelegtes Kapital oder einen Teil davon sowie eine darauf erwartete Rendite verlieren.

Ein Anleger geht mit dem Kauf von Produkten der BJB neben produktspezifischen Risiken auch ein Gegenparteirisiko ein, d.h. das Risiko, dass BJB zum Fälligkeitszeitpunkt ihre Zahlungsverpflichtungen nicht erfüllen kann. Die folgende - nicht abschliessende - Darstellung enthält die nach Ansicht der BJB wesentlichsten Risiken, welche nach derzeitiger Auffassung die Fähigkeit der BJB beeinträchtigen könnten, ihren Verpflichtungen im Rahmen ihrer emittierter Produkte gegenüber den Anlegern nachzukommen. Die gewählte Reihenfolge, in der die nachstehenden Risiken dargestellt sind, stellt weder einen Hinweis über deren Eintrittswahrscheinlichkeit noch über deren Bedeutung dar. Zu berücksichtigen ist des Weiteren, dass die nachfolgend beschriebenen Risikofaktoren auch kumulativ vorliegen können und sich deren Effekt dadurch verstärken kann.

Die Verwirklichung eines oder mehrerer der nachfolgend beschriebenen Risikofaktoren kann erhebliche negative Auswirkungen auf die Ertrags-, Geschäfts- und Finanzlage der BJB haben. Als Ergebnis könnten Anleger ihr Investment teilweise oder insgesamt verlieren (d.h. es könnte zu einem Totalverlust des vom Anleger eingesetzten Kapitals kommen). Die Anlageentscheidung ist aufgrund einer unabhängigen Prüfung durch die potenziellen Anleger und, soweit sie dies für erforderlich halten, aufgrund einer professionellen Beratung, etwa durch Anlageberater, zu treffen.

**Eine Herabstufung des Bonitätsratings der BJB könnte zu erhöhten Finanzierungskosten führen, die Wahrnehmung der Kunden gegenüber BJB nachteilig beeinflussen und/oder die Liquidität der BJB und/oder den Marktwert von durch BJB emittierten Produkten wesentlich beeinträchtigen**

Das Bonitätsrating der BJB hat eine Auswirkung sowohl auf die Bedingungen, zu denen Gläubiger Geschäfte mit BJB zu tätigen bereit sind, als auch auf die Bereitschaft der Kunden, Geschäfte mit BJB einzugehen. Da der Zinssatz und andere Konditionen von Schuldvereinbarungen der BJB unter anderem vom

## I. RISK FACTORS

given by a rating agency could result in increased funding costs and may limit its funding sources or impact its liquidity. In addition, rating downgrades may limit BJB's ability to conduct certain businesses and/or may cause clients to be reluctant to do business with BJB. Because of the negative consequences of a credit rating downgrade on BJB's funding costs and the impact on BJB's liquidity, a reduction in BJB's credit rating as the principal operating entity within the Julius Baer Group could have a material adverse effect on BJB's business, results of operations and financial condition and prospects.

The general assessment of the creditworthiness of BJB may possibly affect the market value of the products issued by BJB. The assessment of the market value depends, amongst other things, on ratings allocated to BJB or affiliated companies by rating agencies, such as Moody's.

Structured products are from a legal perspective bonds (*Schuldverschreibungen*) respectively claims (*Forderungen*) and therefore the risk of default of structured products, as for debenture loans (*Obligationsanleihen*), are subject to the creditworthiness of the issuer. Therefore, the creditworthiness of the issuer should play an important role for the investor when selecting a structured product.

**BJB is exposed to third-party credit risk, and financial or other problems experienced by third parties that may adversely affect BJB's business, results of operations and financial condition and prospects**

BJB is exposed to the risk that third parties which owe BJB money, securities or other assets will not perform their obligations. These parties include BJB's clients, trading counterparties, clearing agents, exchanges, clearing houses and other financial institutions. These parties may default on their obligations to BJB due to lack of liquidity, operational failure, bankruptcy or other reasons.

Credit risk not only entails the risk of partial or complete default in agreed interest and/or redemption payments that are due by a contracting party. The worse the creditworthiness of the contractual party is, the higher the risk of default is. Credit risk also includes the country-specific risk. The country-specific risk is the risk that a

## I. RISIKOFAKTOREN

Bonitätsrating abhängt, könnte die Herabstufung des Bonitätsratings oder eine negative Prognose-Stellung durch eine Rating-Agentur zur Erhöhung der Finanzierungskosten der BJB führen und die Finanzierungsmöglichkeiten einschränken bzw. die Liquidität der BJB beeinträchtigen. Rating-Herabstufungen könnten auch die Fähigkeit der BJB beeinträchtigen, bestimmte Geschäfte durchzuführen und/oder dazu führen, dass Kunden gegenüber Geschäften mit der BJB abgeneigt sind. Aufgrund der nachteiligen Folgen einer Herabstufung des Bonitätsratings auf die Finanzierungskosten der BJB und auf die Liquidität der BJB, könnte eine Herabstufung des Bonitätsratings der BJB wesentliche nachteilige Auswirkungen auf den Geschäftsbetrieb sowie die Ertrags- und Finanzlage und Aussichten der BJB haben.

Die allgemeine Einschätzung der Kreditwürdigkeit der BJB kann möglicherweise den Marktwert der von BJB emittierten Produkte beeinflussen. Die Beurteilung des Marktwerts der Produkte hängt unter anderem von Ratings ab, die der BJB oder mit ihr verbundener Unternehmen von Rating-Agenturen, wie z.B. Moody's, erteilt werden.

Strukturierte Produkte sind rechtlich gesehen Schuldverschreibungen bzw. Forderungen, so dass das Ausfallrisiko bei strukturierten Produkten, wie bei Obligationsanleihen, von der Bonität (*Kreditwürdigkeit*) des Emittenten abhängt. Daher sollte die Bonität des Emittenten bei der Auswahl eines strukturierten Produkts für den Anleger eine wichtige Rolle spielen.

**BJB ist dem Kreditrisiko Dritter sowie finanziellen bzw. anderen Problemen Dritter ausgesetzt, welche den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten der BJB beeinträchtigen könnten**

BJB ist dem Risiko ausgesetzt, dass Dritte, die BJB Geld, Wertpapiere oder anderes Vermögen schulden, ihre Verpflichtungen nicht erfüllen. Dritte können BJBs Kunden oder Gegenparteien, Clearing-Stellen, Börsen, Clearing-Banken und andere Finanzinstitute sein. Diese Parteien kommen möglicherweise ihren Verpflichtungen gegenüber BJB infolge mangelnder Liquidität, Misserfolgen beim Geschäftsbetrieb, Konkurs oder aus anderen Gründen nicht nach.

Das Kreditrisiko beinhaltet nicht nur das Risiko des teilweisen oder vollständigen Ausfalls von vereinbarten Zins- und/oder Tilgungszahlungen, die von einem Vertragspartner zu erbringen sind. Je schlechter die Bonität des Vertragspartners ist, desto höher ist das Ausfallrisiko. Das Kreditrisiko umfasst auch das

## I. RISK FACTORS

foreign debtor, despite its own ability to pay its debts, might not make its interest and/or redemption payments or not make them on due date, for example as a result of a lack of foreign exchange reserves at the responsible central bank ("economic risk") or as a result of political intervention by the government concerned ("political risk"). Finally, credit risk entails also the fulfilment risk ("settlement risk"), which arises at transactions with bilateral payment or deliver obligation when one party has to effectuate a delivery obligation, without being able to assure, the performance in return will be effectuated.

The risk of counterparty default has become increasingly relevant in recent years. Market conditions have led to the failure or merger under distressed conditions of a number of prominent financial institutions. Financial institution failures or near-failures in the past have resulted in losses, including for BJB, as a consequence of defaults on securities issued by such institutions and defaults under Over-the-Counter-("OTC"-)derivatives and other contracts entered into with such entities.

Generally, the largest portion of BJB's credit activities are comprising of secured lending and margin trading activities for its clients, which are secured by pledges of marketable securities. As a result, BJB's risk management procedures focus primarily on the value of the collateral securing BJB's Lombard credits. In cases where BJB has engaged in margin lending, however, BJB may find that it has become under-collateralised, for example, as a result of sudden declines in market values that reduce the value of collateral securities. BJB may incur losses up to the amount by which the obligation owed to BJB exceeds the value of the collateral securing such obligation. These losses may have a material adverse effect on BJB's business, results of operations and financial condition and prospects.

The largest exposure to credit risk arises from the financial investments held by the treasury department of BJB in mostly highly liquid and good quality bonds and notes. Such investments have the potential to be temporarily or permanently impaired due to potential financial problems of their issuers.

**BJB is exposed to market risks arising from open positions in e.g. interest rate, foreign exchange rates and equity and commodities prices, which could**

## I. RISIKOFAKTOREN

Länderrisiko. Das Länderrisiko ist das Risiko, dass ein ausländischer Schuldner trotz eigener Zahlungsfähigkeit, etwa aufgrund eines Mangels an Devisenreserven der zuständigen Zentralbank ("wirtschaftliches Risiko") oder aufgrund politischer Intervention der jeweiligen Regierung ("politisches Risiko"), seine Zins- und/oder Tilgungsleistungen nicht oder nicht termingerecht erbringen kann. Das Kreditrisiko umfasst auch das Erfüllungsrisiko ("Settlement Risk"), welches bei Transaktionen mit gegenseitigen Zahlungs- oder Lieferverpflichtungen entsteht, wenn die eine Partei Lieferverpflichtungen nachkommen muss, ohne sicherstellen zu können, dass die Gegenleistung erbracht wird.

Das Risiko eines Ausfalls bei einer Gegenpartei hat in letzter Zeit zunehmend an Relevanz gewonnen. Marktbedingungen haben bei einer Reihe von angesehenen Finanzinstituten zum Ausfall bzw. zum Zusammenschluss unter nachteiligen Bedingungen geführt. Zusammenbrüche bzw. Beinahe-Zusammenbrüche von Finanzinstituten in der Vergangenheit führten zu Verlusten, auch bei BJB, infolge Ausfällen von Wertpapieren, die von diesen Instituten ausgestellt wurden sowie Ausfällen bei Over-the-Counter-("OTC"-)Derivaten und anderen mit diesen Instituten abgeschlossenen Verträgen.

Grundsätzlich besteht der grösste Teil des Kreditgeschäfts der BJB aus Lombard- und Wertpapierleihegeschäften, die durch Verpfändung verkaufsfähiger Wertpapiere gesichert sind. Deshalb richtet sich das Risikomanagement-Verfahren der BJB in erster Linie nach dem Wert der Sicherheiten für die Lombardgeschäfte der BJB. Bei den Lombardgeschäften der BJB kann es jedoch vorkommen, dass BJB unterbesichert ist, z.B. infolge von plötzlichen Abfällen der Marktwerte, die den Wert der als Sicherheit dienenden Wertpapiere mindert. BJB könnte Verluste bis zur Höhe des Betrages erleiden, mit dem die an BJB geschuldete Verpflichtung den Wert der Sicherheit für die Verpflichtung übersteigt. Diese Verluste könnten den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten von BJB wesentlich beeinträchtigen.

Die grössten Kreditrisiken Dritter resultieren aus finanziellen Investitionen der Treasury Abteilung der BJB in überwiegend hoch-liquide Anleihen und Schuldverschreibungen von Emittenten guter Bonität. Solche Investitionen können infolge möglicher finanzieller Probleme ihrer Emittenten zeitweilig oder dauerhaft gefährdet sein.

**BJB ist Marktrisiken aus offenen Positionen ausgesetzt, z.B. in Bezug auf Zinssätze, Währungswechselkurse sowie Aktienkurse und Rohstoffpreise, die negative Auswirkungen auf BJB's**

## I. RISK FACTORS

### have adverse effects on BJB's results of operations

The market risk is the risk of making a loss as a result of changes in market prices, in particular as a result of changes in foreign exchange rates, interest rates, equity and commodities prices as well as price fluctuations of goods and derivatives. Market risks result primarily because of adverse and unexpected developments in the economic environment, the competitive position, the interest rates, equity and exchange rates as well as in the prices of commodities. Changes in market price may, not least, result from the extinction of markets and accordingly no market price may any longer be determined for a product. The credit- and country-specific risk factors or company intrinsic events arising from price changes of the underlying values are to be considered also as a market risk. In times of high market uncertainty with regard to the development of the world economy, the investor should be particularly considerate of the market risk.

BJB has operating subsidiaries and booking centres located in multiple jurisdictions outside of Switzerland. The results of operations and financial condition and prospects of such subsidiaries and booking centres are reported in currencies other than Swiss francs. In each case, the results of operations and financial condition are translated into Swiss francs at the applicable exchange rates for inclusion in BJB's consolidated financial statements. This exposes BJB to currency fluctuations. Because BJB's consolidated financial statements are stated in Swiss francs, the translation effect of these other currencies could have material adverse effects on BJB's results of operations and financial condition and may affect the comparability of BJB's results between financial periods.

**BJB bears the risk of being unable to obtain sufficient financing at acceptable conditions and, following this, the risk of having insufficient liquidity which may negatively affect its ability to fulfil its due obligations**

Liquidity and financing risk is the risk that, due to the current market situation and due to unexpected changes, BJB does not have enough liquidity to fulfil due obligations, and that no sufficient funding on appropriate conditions is available.

In times of high uncertainty in the market and a high level

## I. RISIKOFAKTOREN

### Ertragslage haben können

Das Marktrisiko ist das Verlustrisiko aufgrund der Veränderung von Marktpreisen, insbesondere wegen der Änderung von Währungswechsellkursen, Zinssätzen, Aktienkursen und Rohstoffpreisen sowie Preisschwankungen von Gütern und Derivaten. Marktrisiken ergeben sich primär durch eine ungünstige und unerwartete Entwicklung des konjunkturellen Umfelds, der Wettbewerbslage, der Zinssätze, der Aktien- und Wechselkurse, sowie der Preise von Rohstoffen. Veränderungen von Marktpreisen können nicht zuletzt auch dadurch ausgelöst werden, dass für ein Produkt plötzlich gar kein Markt mehr vorhanden ist und entsprechend gar kein Marktpreis mehr ermittelt werden kann. Kredit- und länderspezifische Risikofaktoren oder unternehmensinterne Ereignisse, die aus Preisveränderungen der zugrunde liegenden Werte entstehen, gelten ebenfalls als Marktrisiko. In Zeiten grosser Verunsicherung im Markt über die weitere Entwicklung der Weltwirtschaft sollte ein Anleger dem Marktrisiko besondere Beachtung schenken.

BJB hat operative Tochtergesellschaften und Buchungszentren in vielen Ländern ausserhalb der Schweiz. Die Ertrag- und Finanzlage und Aussichten dieser Tochtergesellschaften und Buchungszentren werden in anderen Währungen als Schweizer Franken berichtet. Für die Einbeziehung in die Konzernabschlüsse der BJB werden diese Geschäftsergebnisse jeweils zum massgeblichen Wechselkurs in Schweizer Franken umgerechnet. BJB ist somit Währungsschwankungen ausgesetzt. Da der Konzernabschluss der BJB in Schweizer Franken lautet, kann die Umrechnung dieser anderen Währungen die Ertrags- und Finanzlage der BJB wesentlich beeinträchtigen, und dies könnte Auswirkungen auf die Vergleichbarkeit der Ergebnisse der BJB in unterschiedlichen Abrechnungsperioden haben.

**BJB ist dem Risiko ausgesetzt, nicht in der Lage zu sein, ausreichende Finanzierung zu angemessenen Bedingungen zu erhalten und entsprechend keine ausreichende Liquidität zu haben, was ihre Fähigkeit, ihren fälligen Verpflichtungen nachzukommen, nachteilig beeinträchtigen könnte**

Liquiditäts- und Finanzierungsrisiko ist das Risiko, dass BJB aufgrund der aktuellen Marktsituation und aufgrund von unerwarteten Veränderungen nicht über die ausreichende Liquidität zur Bedienung von fälligen Forderungen verfügt, und dass keine ausreichende Finanzierung zu angemessenen Bedingungen möglich ist.

In Zeiten grosser Verunsicherung im Markt und grossen

## I. RISK FACTORS

of distrust amongst market participants, an investor should give special consideration to the liquidity risk. Even if the central banks abundantly supply the market with liquidity, the liquidity risk is neither limited nor fully eliminated.

**BJB relies on internal processes, people and/or systems. Inadequacies or failures thereof or resulting from external events may disrupt BJB's businesses, result in regulatory action against it or limit BJB's growth**

The operational risk is the risk of losses that arise as a result of inadequacies or failures of internal procedures, employees, systems or as a result of the occurrence of external events, whether intentional or random or in the natural course of events. It includes the risk of unexpected losses from isolated events, caused for example by faulty information systems, unsuitable organisational structures or deficient control mechanisms, as well as the risk of the occurrence of cost increases or profit cuts due to unfavourable general economic or sector specific trends. This risk category does also comprise reputation risks that result, for example, from the disruption of business processes. The operational risk is an element of all the activities of BJB and cannot be eliminated per se.

BJB faces operational risks arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. BJB's businesses are highly dependent on its ability to process, correctly and on a rapid basis, a large number of transactions across several and diverse markets in many currencies. In an industry where business processes become increasingly complex, BJB relies heavily on its financial, accounting and other data processing systems. If any of these systems were not to operate properly or were disabled, BJB could suffer financial loss, a disruption to its business, liability to clients, regulatory intervention and/or reputational damage. In addition, if BJB's systems were unable to accommodate a substantial increase in the volume of transactions, BJB's ability to expand its business could be constrained.

**BJB uses third parties for certain services, and if**

## I. RISIKOFAKTOREN

Misstrauens der Marktteilnehmer untereinander, sollte ein Anleger dem Liquiditätsrisiko besondere Beachtung schenken. Denn auch wenn beispielsweise die Zentral- und Notenbanken die Märkte grosszügig mit Liquidität versorgen, ist damit das Liquiditätsrisiko nicht begrenzt oder gar eliminiert.

**BJB vertraut auf interne Prozesse, Personen und/oder Systeme. Unzulänglichkeiten oder Ausfälle dieser Prozesse, Personen und Systeme oder externe Einflüsse könnten die Geschäfte der BJB stören und zu regulatorischen Massnahmen gegen BJB bzw. zur Einschränkung des Wachstums der BJB führen**

Das operationelle Risiko ist das Risiko, dass infolge der Unangemessenheit oder des Versagens von internen Verfahren, Mitarbeitern, Systemen oder infolge des Eintretens von externen Ereignissen, ob absichtlich oder zufällig herbeigeführt, oder natürlichen Ursprungs, Verluste eintreten. Es umfasst das Risiko unerwarteter Verluste durch Einzelereignisse, hervorgerufen z.B. durch fehlerhafte Informationssysteme, unangemessene Organisationsstrukturen oder mangelnde Kontrollmechanismen, ebenso wie das Risiko des Auftretens von Kostensteigerungen oder Ertragseinbussen aufgrund ungünstiger gesamtwirtschaftlicher oder branchenspezifischer Trends. Auch Reputationsrisiken, die z.B. aus der Unterbrechung von Geschäftsprozessen resultieren, werden in dieser Risikogruppe berücksichtigt. Das operationelle Risiko ist Bestandteil aller Aktivitäten der BJB und kann nicht per se eliminiert werden.

BJB ist operativen Risiken ausgesetzt, welche aufgrund von Fehlern bei der Bestätigung bzw. Durchführung von Transaktionen bzw. der nicht ordnungsgemässen Erfassung, Bewertung oder Bilanzierung von Transaktionen entstehen. Die Geschäfte der BJB hängen im hohen Masse von ihrer Fähigkeit ab, eine grosse Anzahl von Transaktionen in verschiedenen und unterschiedlichen Märkten in verschiedenen Währungen schnell und fehlerfrei zu verarbeiten. In einer Industrie, wo die Geschäftsprozesse zunehmend komplex werden, verlässt sich BJB in erheblichem Masse auf finanzielle, buchungs- und andere Datenverarbeitungssysteme. Falls ein solches System künftig nicht ordnungsgemäss funktionierte oder ausfiel, könnte BJB dadurch finanzielle Verluste, eine Störung ihres Geschäftsbetriebes, Haftung gegenüber Kunden, regulatorische Eingriffe und/oder Reputationschäden erleiden. Darüber hinaus könnte die Fähigkeit von BJB, ihr Geschäft auszubauen, eingeschränkt sein, falls die Systeme von BJB eine wesentliche Erhöhung der Transaktionsmengen nicht bewältigen könnten.

**BJB setzt für gewisse Dienstleistungen Dritte ein,**

## I. RISK FACTORS

**these third parties do not perform as contractually required or expected, BJB may be subject to the risk of client attrition, its reputation may suffer and businesses may not perform as expected**

In providing private banking services to its clients, BJB depends also on third parties for certain services. Although BJB engages in due diligence and closely scrutinises the third parties it procures services from, ultimately BJB does not control these third parties and is subject to risk if these third parties do not perform as expected, including as contractually or legally required.

**BJB is involved in, and may become involved in, legal or other regulatory proceedings, including those related to tax matters, that may be costly and time consuming**

BJB in the ordinary course of business is involved in, and may become involved in, legal or other regulatory proceedings, including those arising out of activities of any entity which has fully or partially been merged with, or taken over by BJB, or any entity which will be one of the foregoing, which may be costly to defend and could result in large monetary losses, including punitive damage awards, and cause significant harm to BJB's reputation. In particular, BJB is involved in a number of third-party claims made against it. In certain of these claims, BJB is unable to make a reasonable estimate of the amount or range of any loss that could result from an unfavourable outcome. Even if BJB is successful in defending the claims against it or in its claims against third parties, such proceedings may result in expenditures of sums which prove to be irrecoverable and may divert management's attention and resources. Consistent with applicable accounting standards, BJB from time to time takes provisions against any losses which it is more likely than not to incur.

**BJB operates in an industry that is highly regulated. Increased regulation of BJB's business could decrease BJB's revenues and profitability**

BJB's operations are subject to oversight by regulatory authorities in multiple jurisdictions. In general, laws and

## I. RISIKOFAKTOREN

**und falls diese nicht wie vertraglich vereinbart oder erwartet diese Dienstleistungen vornehmen, könnte BJB Kunden verlieren, ihre Reputation könnte darunter leiden, und die Geschäftsbereiche könnten die erwartete Leistung nicht erbringen**

Bei der Erbringung der Dienstleistungen als Privatbank gegenüber ihren Kunden ist BJB für bestimmte Dienstleistungen auch von Dritten abhängig. Obwohl BJB Dritte, mit denen sie zusammenarbeitet, sorgfältig überprüft und eng überwacht, hat BJB letztendlich keine Kontrolle über diese Dritten und ist somit einem Risiko ausgesetzt, wenn diese Dritten die erwarteten Leistungen nicht erbringen, auch wenn diese Leistungen vertraglich bzw. rechtlich vorgeschrieben sind.

**BJB ist an Gerichtsverfahren bzw. sonstigen aufsichtsrechtlichen Verfahren, einschliesslich steuerrechtlicher Verfahren, beteiligt, die kosten- und zeitaufwendig sein können, und BJB könnte auch zukünftig in solchen Verfahren beteiligt werden**

Im Rahmen des üblichen Geschäftsbetriebes ist BJB an Gerichtsverfahren und anderen aufsichtsrechtlichen Verfahren beteiligt und kann zukünftig daran beteiligt werden, einschliesslich Verfahren aus Tätigkeiten von Gesellschaften, die teilweise oder vollständig mit BJB fusioniert sind bzw. fusionieren werden oder von BJB übernommen wurden bzw. werden, bei denen die Vertretung kostenintensiv sein kann und die zu erheblichen finanziellen Einbussen einschliesslich von Strafschadenersatz und dadurch zu einem erheblichen Reputationsschaden der BJB führen können. Insbesondere macht eine Reihe von Dritten Ansprüche gegen BJB geltend. Bei einigen dieser Ansprüche kann BJB keine angemessene Schätzung der Höhe des Verlustes bzw. des Verlustrahmens im Falle eines ungünstigen Ausgangs treffen. Auch wenn BJB bei der Abwehr der gegen sie geltend gemachten Ansprüche oder bei den eigenen Ansprüchen gegen Dritte erfolgreich ist, können solche Verfahren zu Ausgaben führen, die nicht rückforderbar sein können, und die Aufmerksamkeit der Geschäftsführung beanspruchen und Ressourcen ablenken. Entsprechend den massgeblichen Grundsätzen ordnungsgemässer Buchführung bildet BJB von Zeit zu Zeit Rückstellungen für Verluste, die mit hinreichender Wahrscheinlichkeit eintreten könnten.

**BJB ist in einer streng regulierten Branche tätig. Erhöhte Regulierung des Geschäftsbetriebes der BJB könnte die Einnahmen und die Profitabilität der BJB mindern**

Der Geschäftsbetrieb der BJB unterliegt der Aufsicht durch Aufsichtsbehörden in einer Vielzahl von Ländern.



## I. RISK FACTORS

regulations applied at national, state, provincial, communal or local level grant broad administrative discretion over BJB's activities, including the power to limit or restrict business activities, to governmental agencies and industry self-regulatory authorities. It is possible that laws and regulations governing BJB's operations could be amended or interpreted in a manner that is adverse to it. To the extent that amendments to existing regulations or new regulations reduce the demand for BJB's services, BJB's assets under management and revenues could be adversely affected. (See "*BJB is subject to the risk that markets in which it operates will become less attractive to clients, in particular due to regulatory or tax changes in such jurisdictions or in the clients' home jurisdictions*" below).

BJB's costs and therefore its profitability could also be adversely affected due to increased cost of compliance resulting from an increase in the scope of regulation to which BJB is subject. Due to the complexity of the regulatory environment in which BJB operates, BJB expects that any increase in regulation will result in an overall corresponding increase in the cost to ensure compliance.

BJB is subject to various rules and regulations regarding money laundering prevention. Monitoring compliance with increasingly stringent anti-money laundering rules will place a significant financial burden on BJB and pose a significant challenge in ensuring that BJB's anti-money laundering standards are up-to-date and consistently applied in all circumstances by BJB's employees across all branches and subsidiaries. BJB and other financial services institutions have experienced increased regulation of their activities as a result of anti-money laundering initiatives in a number of jurisdictions. Furthermore, Switzerland and other jurisdictions in which BJB operates have adopted regulations to strengthen prohibitions on money laundering and terrorist financing. Any violation or potential violation of anti-money laundering rules or even the mere suggestion of such violations may have severe legal, regulatory and reputational consequences for BJB and may adversely affect BJB's business, results of operations and financial condition and prospects.

**Potential non-compliance with regulatory requirements may result in enforcement measures or**

## I. RISIKOFAKTOREN

Die auf nationaler, einzelstaatlicher, regionaler, kommunaler oder örtlicher Ebene angewendeten Gesetze und Vorschriften geben den Behörden und brancheneigenen Aufsichtsbehörden ein breites verwaltungsrechtliches Ermessen über die Tätigkeiten der BJB, einschliesslich der Befugnis zur Beschränkung von Geschäftstätigkeiten. Es ist möglich, dass die für den Geschäftsbetrieb der BJB massgeblichen Gesetze und Verordnungen in einer Weise geändert oder ausgelegt werden könnten, die für BJB nachteilig ist. Sofern Änderungen der bestehenden Verordnungen bzw. neue Verordnungen die Nachfrage für die Dienstleistungen der BJB mindern, könnte das von BJB unter Verwaltung stehende Vermögen und die Erträge daraus beeinträchtigt werden. (Siehe "*BJB unterliegt dem Risiko, dass die Märkte, in denen BJB tätig ist, für Kunden weniger attraktiv werden könnten, insbesondere infolge von aufsichtsrechtlichen bzw. steuerrechtlichen Änderungen in solchen Ländern oder in den Heimatländern der Kunden*".)

Die Kosten der BJB und somit die Profitabilität könnten auch durch erhöhte Compliance-Kosten infolge einer Verstärkung der Regulierung, welcher BJB unterliegt, beeinträchtigt werden. Aufgrund der Komplexität des regulatorischen Umfelds, in dem BJB tätig ist, erwartet BJB, dass eine verstärkte Regulierung insgesamt zu einem entsprechenden Anstieg der Kosten zur Sicherstellung der Compliance werden.

BJB unterliegt verschiedenen Regeln und Bestimmungen betreffend die Verhinderung von Geldwäsche. Die Überwachung der Einhaltung von zunehmend strengeren Anti-Geldwäsche-Bestimmungen wird eine erhebliche Kostenlast für BJB zur Folge haben und ist eine erhebliche Herausforderung im Rahmen von BJBs Massnahmen, ihre internen Anti-Geldwäsche-Standards auf dem jeweils aktuellen Stand zu halten und zu gewährleisten, dass diese einheitlich von allen Mitarbeitern der BJB in sämtlichen Zweigniederlassungen und Tochtergesellschaften angewendet werden. Im Rahmen von Massnahmen zur Geldwäsche-Bekämpfung hat sich in einigen Ländern die Regulierung der Geschäftstätigkeit der BJB und anderer Finanzdienstleistungsinstitute verstärkt. Darüber hinaus haben die Schweiz und andere Länder, in denen BJB tätig ist, Bestimmungen zur Verstärkung der Verbote von Geldwäsche und Terror-Finanzierung verabschiedet. Ein Verstoß bzw. ein möglicher Verstoß gegen Regeln über Geldwäsche oder auch nur der blosser Verdacht solcher Verstöße könnte ernsthafte rechtliche und regulatorische Folgen und einen Reputationsschaden für BJB zur Folge haben und den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten von BJB beeinträchtigen.

**Mögliche Missachtung aufsichtsrechtlicher Anforderungen könnte zu Enforcementmassnahmen**

## I. RISK FACTORS

**subject BJB to significant penalties and could adversely affect BJB's reputation, all of which could result in a significant decline in assets under management and hence, revenue and profitability**

Potential non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action against BJB. 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 BJB's business organisations or their key personnel, the imposition of fines and censures on BJB and its employees, the enforcement of payment obligations to clients or market participants and the imposition of additional capital requirements. BJB cannot give any assurance that it will not be subject to future regulatory scrutiny, which could give rise to adverse publicity, damage BJB's reputation and/or have a material adverse effect on BJB's business. Any loss of investor and/or client confidence as a result of non-compliance or alleged non-compliance with regulatory requirements could lead to a significant decline in assets under management, which would have an adverse effect on BJB's business, results of operations and financial condition and prospects.

### **BJB faces increased competition**

BJB competes with a number of large commercial banks, insurance companies and other broad-based financial institutions that have the ability to offer a wide range of products, including loans, deposit-taking, insurance, securities, investment banking and asset management services. Generally, they also have substantial financial resources and, accordingly, have the ability to support securities, investment banking and asset management services in an effort to gain market share, which could result in pricing and other competitive pressures on BJB's business. The ability of BJB's clients to withdraw assets on short notice requires careful monitoring of, and quick responses to, the activities of BJB's competitors. If BJB is not able to respond to these activities rapidly enough, BJB could lose significant assets under management and/or clients, which would have a material adverse effect on BJB's business, results of operations and financial condition and prospects.

## I. RISIKOFAKTOREN

**bzw. empfindlichen Strafen gegen BJB führen und die Reputation von BJB beeinträchtigen, und dies könnte zu einer wesentlichen Minderung des verwalteten Vermögens und somit der Einnahmen und der Profitabilität führen**

Eine mögliche Missachtung aufsichtsrechtlicher Anforderungen könnte dazu führen, dass Aufsichtsbehörden Durchsetzungsmassnahmen gegen BJB ergreifen. Mögliche Sanktionen umfassen die Aufhebung der Genehmigung zur Führung von bestimmten Geschäften, den vorläufigen Ausschluss bzw. den Verweis aus einem bestimmten Land oder einem Markt hinsichtlich des Geschäftsbetriebes bzw. wichtiger Mitarbeiter von BJB oder zu Bussgeldern und Strafen für BJB und deren Mitarbeiter oder zur Durchsetzung von Zahlungsverpflichtungen gegenüber Kunden oder Marktteilnehmern und zur Auferlegung von weitergehenden Kapitalerfordernissen führen. BJB kann keine Zusicherung abgeben, dass sie nicht Gegenstand einer künftigen aufsichtsrechtlichen Ermittlung sein wird, die zur nachteiligen Öffentlichkeitswirkung und einem Reputationsschaden der BJB führen und/oder eine wesentliche nachteilige Auswirkung auf den Geschäftsbetrieb von BJB haben könnte. Der Verlust des Vertrauens eines Anlegers und/oder Kunden infolge der Missachtung oder einer angeblichen Missachtung der aufsichtsrechtlichen Bestimmungen könnte zu einer erheblichen Minderung des verwalteten Vermögens führen, was zu einer Beeinträchtigung des Geschäftsbetriebs, der Ertrags- und Finanzlage und Aussichten der BJB führen könnte.

### **BJB ist mit zunehmendem Wettbewerb konfrontiert**

BJB steht im Wettbewerb mit einer Reihe von grossen Handelsbanken, Versicherungsgesellschaften und anderen breit aufgestellten Finanzinstituten, die eine breite Palette von Produkten einschliesslich Darlehen, des Einlagengeschäfts, Versicherung, des Wertpapiergeschäfts, Investmentbanking und Vermögensverwaltung anbieten. Diese verfügen im Allgemeinen auch über erhebliche finanzielle Ressourcen und haben daher die Möglichkeit, das Wertpapiergeschäft, das Investmentbanking und das Vermögensverwaltungsgeschäft zu unterstützen, um Marktanteile zu gewinnen. Dies könnte zu einem Preisdruck und anderem Konkurrenzdruck auf den Geschäftsbetrieb der BJB führen. Weil die Kunden der BJB die Möglichkeit haben, ihr Vermögen kurzfristig abzuziehen, ist eine sorgfältige Überwachung der Tätigkeiten der Konkurrenten der BJB sowie schnelle Reaktion darauf erforderlich. Kann BJB nicht schnell genug auf diese Tätigkeiten reagieren, könnte BJB erhebliches verwaltetes Vermögen und/oder Kunden verlieren, was den Geschäftsbetrieb sowie die Ertrags- und Finanzlage und Aussichten der BJB wesentlich

## I. RISK FACTORS

### **BJB's revenue may decline due to competition from alternative trading systems**

Securities and futures transactions are increasingly being conducted through the internet and other alternative, non-traditional trading systems, and it appears that this trend toward the use of alternative trading systems will continue and may accelerate. A dramatic increase in electronic trading may adversely affect BJB's commission and trading income and could reduce BJB's market share.

### **BJB faces competition with respect to attracting and retaining key management and personnel, and in particular BJB's client relationship managers**

BJB's business model relies on experienced client relationship managers to attract and retain clients. As a result, BJB's ability to attract and retain experienced relationship managers, and the relationship managers' ability to recruit and retain clients, is central to BJB's ability to maintain and grow its assets under management and revenues. Individual relationship managers often maintain strong personal relationships with BJB's clients that are based on BJB's clients' trust in the relationship manager. Accordingly, any loss of client relationship managers could cause a loss of clients, thereby resulting in a decline in BJB's assets under management.

The employment agreements BJB has with its employees, including key management and client relationship managers, generally do not contain non-competition restrictions in the event they leave BJB, and therefore, there is nothing that legally prevents them from leaving BJB to engage in competing business activities. In addition, losing the services of one or more members of BJB's management team could adversely affect BJB's business and possibly prevent BJB from carrying out its strategy successfully.

It has been BJB's policy to provide the relationship managers and other key personnel with compensation and benefits that BJB believes are competitive with other leading private banks. However, the market for experienced relationship managers and other professionals is competitive, particularly in Asia where

## I. RISIKOFAKTOREN

beeinträchtigen könnte.

### **Der Umsatz der BJB könnte infolge der Konkurrenz durch Alternativhandelssysteme sinken**

Wertpapier- und Termingeschäfte werden vermehrt über das Internet und andere alternative, neue Handelssysteme getätigt, und diese Tendenz in Richtung des Einsatzes von alternativen Handelssystemen wird sich voraussichtlich fortsetzen und vielleicht beschleunigen. Ein dramatischer Anstieg des elektronischen Handels könnte die Provisionseinnahmen und die Handelserträge der BJB beeinträchtigen und den Marktanteil von BJB reduzieren.

### **BJB konkurriert mit anderen Wettbewerbern bei der Anwerbung und dem Erhalt von wichtigem Personal im Bereich des Managements und bei anderen Mitarbeitern insbesondere bei den Kundenbetreuern von BJB**

Das Geschäftsmodell der BJB beruht auf erfahrenen Kundenbetreuern, um Kunden zu gewinnen und zu behalten. Daher ist die Fähigkeit von BJB, erfahrene Kundenbetreuer zu gewinnen und zu behalten, sowie die Fähigkeit der Kundenbetreuer, Kunden zu gewinnen und zu behalten, ein Hauptfaktor bei der Fähigkeit von BJB, das verwaltete Vermögen und die Einnahmen aufrechtzuerhalten und auszubauen. Einzelne Kundenbetreuer haben oft enge persönliche Beziehungen zu den Kunden von BJB, die auf dem persönlichen Vertrauen der Kunden von BJB zum Kundenbetreuer beruhen. Demzufolge könnte der Verlust von Kundenbetreuern den Verlust von Kunden nach sich ziehen und damit zur Minderung des bei BJB verwalteten Vermögens führen.

Die Arbeitsverträge der BJB mit ihren Mitarbeitern einschliesslich Manager in Schlüsselpositionen und Kundenbetreuer sehen grundsätzlich keine Wettbewerbsverbote beim Ausscheiden aus der BJB vor, und es gibt daher keine rechtlichen Hindernisse, wenn sie BJB verlassen, um einer konkurrierenden Tätigkeit nachzugehen. Darüber hinaus könnte der Verlust der Dienste von einem oder mehreren Mitgliedern der Geschäftsführung der BJB den Geschäftsbetrieb der BJB beeinträchtigen und möglicherweise BJB daran hindern, ihre Strategie erfolgreich umzusetzen.

Es ist die Geschäftspolitik von BJB, Kundenbetreuern und anderen wichtigen Mitarbeitern eine Vergütung und Vergünstigungen zu gewähren, die BJB für wettbewerbsfähig mit anderen führenden Privatbanken hält. Allerdings gibt es eine starke Konkurrenz im Bereich der erfahrenen Kundenbetreuer und anderem

## I. RISK FACTORS

growth in private banking has been high and recruitment is often based on hiring relationship managers and other professionals from competitors. Consequently, there can be no assurance that BJB will be successful in its efforts to recruit and retain the required personnel. Any failure to recruit or retain suitably experienced relationship managers and other professionals could limit BJB's ability to grow its assets under management which could adversely affect BJB's business, results of operations and financial condition and prospects.

**BJB's reputation is one of the most important assets BJB has and if that reputation is harmed, BJB may not be able to retain and attract clients and its business, results of operations and financial condition and prospects may suffer**

BJB is exposed to the risk that negative or adverse publicity, press speculation and threatened or actual legal proceedings concerning BJB's business or BJB's clients will harm its reputation. Any negative or adverse publicity could be based on actual or perceived misconduct of BJB's employees (including arising out of the activities entities which have been merged with BJB or will be in the future or which have been taken over by BJB or will be in the future), misconduct and potential misconduct by an existing or newly acquired client which could have a negative impact on BJB through allegations that BJB does not fully comply with regulatory requirements or anti-money laundering rules, publicity about politically exposed persons, if any, in BJB's client base or allegations that a regulator or prosecutor is conducting investigations involving BJB. BJB could suffer from an adverse impact on its reputation for instance if investments or financial products BJB recommends do not perform as expected. Negative publicity or legal proceedings could also result from failures in BJB's IT system, loss or theft of clients' data or confidential information, failure in BJB's risk management or internal control procedures as well as fraud or misconduct committed by one of BJB's employees, agents or third-party distributors. Any resulting damage to BJB's reputation could cause disproportionate damage to BJB's business regardless of whether the negative publicity or speculation is factually accurate or legal proceedings are commenced.

## I. RISIKOFAKTOREN

Fachpersonal insbesondere in Asien, wo das Privatbankgeschäft stark gewachsen ist, und die Neueinstellung auf der Abwerbung von Kundenbetreuern und anderem Fachpersonal von Wettbewerbern beruht. Daher gibt es keine Sicherheit, dass BJB bei ihren Bemühungen, das erforderliche Personal einzustellen und zu behalten, erfolgreich sein wird. Ein Misserfolg bei der Einstellung und dem Erhalt von gut ausgebildeten und erfahrenen Kundenbetreuern und anderem Fachpersonal könnte die Fähigkeit der BJB einschränken, ihr verwaltetes Vermögen auszubauen, und dies könnte den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten der BJB beeinträchtigen.

**Die Reputation der BJB gehört zu den wichtigsten Vermögenswerten der BJB, und bei einer Schädigung der Reputation könnte BJB nicht in der Lage sein, Kunden zu behalten bzw. zu gewinnen, und der Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten von BJB könnten darunter leiden**

BJB ist dem Risiko ausgesetzt, dass negative bzw. nachteilige Veröffentlichungen, Vermutungen in der Presse und drohende bzw. tatsächliche Gerichtsverfahren betreffend des Geschäftsbetriebs oder der Kunden der BJB die Reputation von BJB schädigen könnten. Eine negative bzw. nachteilige Veröffentlichung könnte auf tatsächlichem bzw. vermutetem Fehlverhalten von Mitarbeitern der BJB (einschliesslich aus den Tätigkeiten von Gesellschaften, die mit BJB fusioniert sind oder werden bzw. von BJB übernommen wurden oder werden) oder auf Fehlverhalten bzw. möglichem Fehlverhalten von einem bestehenden oder neu gewonnenen Kunden beruhen. Dies könnte sich auf BJB nachteilig auswirken infolge von Behauptungen, dass BJB die aufsichtsrechtlichen Anforderungen oder die Regeln gegen Geldwäsche nicht umfassend beachte, infolge von Veröffentlichungen über politisch exponierten Personen aus dem Kundenstamm der BJB oder infolge von Vermutungen über aufsichtsrechtliche bzw. strafrechtliche Ermittlungen betreffend BJB. BJB könnte infolge eines Reputationsschadens Nachteile erleiden, wenn z.B. von BJB empfohlene Anlagen bzw. Finanzprodukte nicht den erwarteten Erfolg bringen. Negative Veröffentlichungen bzw. Gerichtsverfahren könnten sich auch als Folge von Fehlleistungen des EDV-Systems der BJB, dem Verlust bzw. der Entwendung von Kundendaten oder vertraulichen Informationen, einem Versagen beim Risiko-Management der BJB oder interner Kontrollmassnahmen sowie Arglist oder Fehlverhalten seitens eines Mitarbeiters, eines Bevollmächtigten oder eines Vertriebspartners der BJB ergeben. Ein daraus entstehender Reputationsschaden für BJB könnte den Geschäftsbetrieb von BJB ohne Rücksicht darauf, ob die nachteilige Veröffentlichung bzw. Vermutung tatsächlich zutreffend ist oder Gerichtsverfahren eingeleitet werden, schädigen.

## I. RISK FACTORS

Any reputational damage to BJB, including from the activities of any entity which has been merged with, or taken over by, or will be any of the foregoing, could cause existing clients to withdraw their assets from BJB and/or potential clients to be reluctant to do business with BJB, and investors to shy away from investing in BJB's shares. Furthermore, negative publicity or potential or actual legal proceedings may result in increasing regulatory scrutiny and influence market perception of BJB. Any of these negative effects could adversely affect BJB's business, results of operations or financial condition and prospects.

### **BJB could be adversely affected by recent developments in the private banking industry, including increased legal restrictions in its clients**

In the recent past, the Swiss banking client confidentiality laws, and low-tax jurisdictions in general, sparked new and intensified interest at the international level. Any future significant change to Swiss banking client confidentiality laws and practice and any additional or enhanced enforcement campaigns by tax and other authorities against participants in the private banking industry or their clients could have an adverse impact on the private banking industry in Switzerland generally and consequently on BJB. Self-disclosures to tax authorities made by bank clients might be expected to lead to increased regulatory scrutiny of the Swiss private banking industry, including BJB. The focus on tax compliance and changes in enforcement practices could further lead to asset outflows from customers. In addition, continued publicity about the subject may place pressure on BJB's business, results of operations and financial position and prospects.

In a landmark decision on so-called retrocessions the Swiss Federal Supreme Court ruled 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. BJB has been assessing this Court decision as well as further relevant court decisions in this context, mandate structures to which these Court decisions might be applicable and documentation as well as the impact of respective waivers and communicated bandwidths having been introduced some years ago and implemented

## I. RISIKOFAKTOREN

Ein Reputationsschaden der BJB, einschliesslich solcher aufgrund der Tätigkeiten von Gesellschaften, die mit der BJB fusioniert sind oder fusionieren werden oder die von BJB übernommen wurden oder werden, könnte bestehende Kunden dazu veranlassen, ihr Vermögen bei der BJB abzuziehen und/oder bei potenziellen Kunden eine Zurückhaltung bei Geschäften mit BJB hervorrufen und/oder Anleger davon abhalten, in Aktien der BJB zu investieren. Darüber hinaus können nachteilige Veröffentlichungen bzw. mögliche oder tatsächliche Gerichtsverfahren zu verstärkter aufsichtsrechtlicher Überwachung führen und die Wahrnehmung der Märkte bezüglich BJB beeinflussen. Jede dieser nachteiligen Auswirkungen könnte den Geschäftsbetrieb, die Ertrags- bzw. Finanzlage und Aussichten der BJB beeinträchtigen.

### **BJB könnte durch die Entwicklungen im Private Banking Sektor in der jüngeren Vergangenheit, einschliesslich verstärkter rechtlicher Beschränkungen, die ihren Kunden auferlegt werden, nachteilig beeinflusst werden**

In jüngerer Vergangenheit haben die Schweizer Gesetze über das Bankgeheimnis, sowie Länder mit niedriger Steuerbelastung im Allgemeinen, ein neues und verstärktes Interesse auf internationaler Ebene ausgelöst. Eine künftig bedeutende Änderung der Schweizer Gesetze über das Bankgeheimnis und der Handhabung des Bankgeheimnisses und etwaige zusätzliche bzw. ergänzende Durchsetzungskampagnen seitens der Steuerbehörden und anderen Behörden gegen Teilnehmer der Privatbankenindustrie bzw. deren Kunden könnten die Privatbanken in der Schweiz allgemein und somit BJB beeinträchtigen. Selbstanzeigen an Steuerbehörden durch Bankkunden könnten voraussichtlich zur erhöhten aufsichtsrechtlichen Überwachung der Schweizer Privatbanken, einschliesslich der BJB, führen. Zudem könnten die Fokussierung auf die Einhaltung von Steuergesetzen und Änderungen in der Vollstreckungspraxis zu einem Abfluss von Kundenvermögen führen. Darüber hinaus könnte weiteres Aufsehen in Bezug auf dieses Thema den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten von BJB unter Druck setzen.

In einem Grundsatzentscheid betreffend sogenannte Retrozessionen hat das Schweizerische Bundesgericht entschieden, dass durch den Zufluss von Bestandespflegekommissionen im Zusammenhang mit der Ausübung eines Vermögensverwaltungsmandats bei einer Bank ein Interessenskonflikt entstehen kann. BJB hat diesen Gerichtsentscheid und weitere einschlägige Gerichtsentscheide und die Mandatsstrukturen, auf die diese Gerichtsentscheide Anwendung finden könnte, analysiert. Sie hat sodann die entsprechenden Dokumentationen inklusive die in den letzten Jahren

## I. RISK FACTORS

appropriate measures to address the matter. While BJB believes that its current policies regarding such fees, both paid and received, are in compliance with general market practice and the law presently in force, it remains unclear how the law and practice will continue to develop, and any such development could have an adverse impact on BJB's business, results of operations and financial position and prospects.

**BJB is subject to the risk that markets in which it operates will become less attractive to clients, in particular due to regulatory or tax changes in such jurisdictions or in the clients' home jurisdictions**

BJB is exposed to the risk that one or more jurisdictions in which BJB books client assets may become a less attractive location for its clients to hold their assets. In particular, legal, regulatory or tax changes in such jurisdictions might cause clients to move their assets to other jurisdictions. Clients may also have an incentive, through beneficial tax treatments due to changes in tax laws or tax amnesties, to move their assets into jurisdictions including the clients' home jurisdictions where BJB does not have banking operations, thereby negatively impacting BJB's assets under management. Because a significant portion of BJB's assets under management are booked in a location other than the clients' home jurisdictions, BJB is particularly exposed to regulatory and tax changes that make Switzerland and BJB's other booking centres less attractive locations for clients to hold their assets.

Changes to regulations or tax laws or their interpretation and enforcement may, even retroactively, affect the attractiveness and reduce sales of certain of BJB's products that currently have favourable regulatory and tax treatment.

**BJB may be exposed to increases in capital requirements causing potential costs which may not be compensated by additional profits thereby**

## I. RISIKOFAKTOREN

eingeholten Verzichtserklärungen und gemachten Bandbreitenangaben, analysiert und geeignete Massnahmen implementiert, um die Angelegenheit in geeigneter Weise zu adressieren. Obwohl BJB der Auffassung ist, dass ihre gegenwärtige Politik hinsichtlich jener sowohl gezahlten als auch erhaltenen Gebühren der üblichen allgemeinen Praxis im Markt und der gegenwärtigen Gesetzeslage entspricht, bleibt es unklar, wie sich das Recht und die Praxis weiter entwickeln werden, und eine solche Entwicklung könnte den Geschäftsbetrieb, die Ertrags- und Finanzlage und Aussichten von BJB nachteilig beeinträchtigen.

**BJB unterliegt dem Risiko, dass die Märkte, in denen BJB tätig ist, für Kunden weniger attraktiv werden könnten, insbesondere infolge von aufsichtsrechtlichen bzw. steuerrechtlichen Änderungen in solchen Ländern oder in den Heimatländern der Kunden**

BJB ist dem Risiko ausgesetzt, dass eines oder mehrere Länder, in denen BJB Kundenvermögen hält, als Standort für das Vermögen ihrer Kunden weniger attraktiv werden könnte. Insbesondere rechtliche, aufsichtsrechtliche bzw. steuerrechtliche Änderungen in diesen Ländern könnten Kunden veranlassen, ihr Vermögen in andere Länder zu verlagern. Kunden könnten auch einen Anreiz haben, durch bevorzugte Steuerbehandlung in Folge von steuerrechtlichen Änderungen bzw. einer Steueramnestie, ihr Vermögen in Länder einschliesslich der Heimatländer der Kunden abzuziehen, in denen BJB keine Bankgeschäfte betreibt, und dies könnte das von BJB verwaltete Vermögen beeinträchtigen. Da ein wesentlicher Teil des von BJB verwalteten Vermögens an einem anderen Ort als im Heimatland der Kunden geführt wird, ist BJB insbesondere aufsichtsrechtlichen und steuerrechtlichen Änderungen ausgesetzt, die dazu führen, dass die Schweiz und die anderen Buchungszentren, bei denen Vermögen gehalten werden, weniger attraktiv für die Kunden zur Haltung ihres Vermögens sind.

Änderungen von Verordnungen bzw. bei der Steuergesetzgebung oder deren Auslegung und Durchsetzung können die Attraktivität von einigen Produkten der BJB, gegebenenfalls auch nachträglich, beeinflussen, die gegenwärtig eine günstige aufsichtsrechtliche und steuerrechtliche Behandlung erfahren, und den Verkauf dieser Produkte mindern.

**BJB könnte dem Risiko von erhöhten Kapitalanforderungen ausgesetzt sein, was zu potenziellen Kosten führen könnte, welche nicht**

## I. RISK FACTORS

**potentially reducing the profitability and the BJB's ability to engage in acquisitions**

Switzerland's new capital adequacy requirements (in accordance with Basel III, hereinafter 'Basel III') came into force on 1 January 2013. The capital held by the Group is sufficient to meet the relevant BIS and FINMA requirements. It cannot be excluded that the new provisions result in an augmentation of the cost of business activities of BJB. There is a risk that the increased costs cannot be compensated by increased income and therefore reduced profits cannot be precluded. In addition, there is a risk that the increase of the capital requirements could adversely affect the ability of BJB of engaging in acquisitions.

**In case of financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, BJB, which proceedings or measures may have a material adverse effect on the terms and market value of products issued by BJB and/or the ability of BJB to make payments thereunder and/or the obligations of BJB under the products**

Pursuant to article 25 et seq. of the Swiss Banking Act, FINMA has broad statutory powers to take measures and actions in relation to BJB if it is (i) over indebted, (ii) has serious liquidity problems, or (iii) fails to fulfill the applicable adequacy provisions after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorised (a) to open restructuring proceedings (*Sanierungsverfahren*) or (b) to open liquidation (bankruptcy) proceedings (*Bankenkonkurs*) in respect of, and/or (c) impose protective measures (*Schutzmassnahmen*) in relation to, BJB. The Swiss Banking Act, as last amended as of 1 January 2016, grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, protective measures that may be imposed by FINMA include a broad variety of measures such as a bank moratorium (Stundung) or a maturity postponement (*Fälligkeitsaufschub*) and may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. In a restructuring proceeding, the resolution plan may, among other things provide for (i) the transfer of BJB's assets or parts thereof with assets and debt as well as contracts to another entity, (ii) the conversion of BJB's debt or other obligations (including its obligations under any Products)

## I. RISIKOFAKTOREN

**durch zusätzliche Gewinne kompensiert werden können und dadurch die Profitabilität mindern und die Fähigkeit von BJB beeinträchtigen können, Akquisitionen vorzunehmen**

In der Schweiz sind die neuen Eigenmittelvorschriften (gemäss Basel-III-Vorgaben, fortan «Basel III» genannt) am 1. Januar 2013 in Kraft getreten. Auch unter diesen neuen Vorschriften ist BJB ausreichend kapitalisiert gemäss den jeweils geltenden Richtlinien der BIZ und der FINMA. Es ist nicht auszuschliessen, dass diese neuen Vorschriften die Geschäftstätigkeit der BJB verteuern. Es besteht das Risiko, dass diese höheren Kosten nicht durch höhere Einnahmen kompensiert werden können, so dass sinkende Erträge nicht ausgeschlossen werden können. Darüber hinaus besteht das Risiko, dass die Verschärfung der Eigenkapitalanforderungen die Akquisitionsfähigkeiten der BJB negativ beeinflussen könnte.

**Im Falle von finanziellen Schwierigkeiten ist die FINMA befugt, in Bezug auf die BJB Sanierungs- oder Liquidationsverfahren zu eröffnen und/oder Schutzmassnahmen zu ergreifen, die erhebliche nachteilige Auswirkungen auf die Bedingungen und den Marktwert der von der BJB begebenen Produkte und/oder die Fähigkeit der BJB zur Leistung von Zahlungen auf diese Produkte und/oder die Verbindlichkeiten der BJB aus Produkten haben könnten**

Nach Artikel 25 ff. des Schweizer Bankengesetzes hat die FINMA weitreichende gesetzliche Befugnisse zur Einleitung von Massnahmen und Schritten in Bezug auf die BJB, wenn diese (i) überschuldet ist, (ii) ernsthafte Liquiditätsprobleme hat oder (iii) die Eigenmittelvorschriften nach Ablauf einer von der FINMA festgesetzten Frist nicht erfüllt. Ist eine dieser Voraussetzungen erfüllt, so kann die FINMA in Bezug auf die BJB (a) ein Sanierungsverfahren oder (b) die Konkursliquidation (Bankenkonkurs) oder (c) Schutzmassnahmen anordnen. Nach dem Schweizerischen Bankengesetz, wie letztmals revidiert am 1. Januar 2016, wird der FINMA ein weitreichender Ermessensspielraum im Hinblick auf die vorgenannten Verfahren und Massnahmen eingeräumt. Insbesondere kann die FINMA diverse Massnahmen wie eine Stundung oder einen Fälligkeitsaufschub sowohl selbständig als auch in Verbindung mit einer Sanierung oder Konkursliquidation anordnen. Im Rahmen eines Sanierungsverfahrens kann der Sanierungsplan unter anderem (i) die Übertragung des Vermögens der Bank oder von Teilen davon mit Vermögenswerten und Verbindlichkeiten sowie der Vertragsverhältnisse auf einen anderen Rechtsträger, (ii) die Umwandlung von Fremdkapital oder sonstigen Verbindlichkeiten der BJB

## I. RISK FACTORS

into equity, and/or (iii) potentially haircuts on respectively partial or full write-down of obligations of BJB (including its obligations under any products).

**BJB as a wholly owned subsidiary of Julius Baer Group Ltd. is dependent on the development/decisions of its parent and the Julius Baer Group as a whole**

BJB, as a one hundred per cent subsidiary of Julius Baer Group Ltd. (Julius Baer Group Ltd. together with its subsidiaries the "**Julius Baer Group**"), is particularly dependent on the development of the parent company and on its decisions as well as on the development of the Julius Baer Group as a whole.

**BJB's growth in new and existing markets and its potential failure to correctly implement applicable law and regulations may have consequences, such as the revocation of local authorisations and, therefore, give rise to potential market withdrawals and may lead to financial expenditures and reputational harm**

Further risks may arise from the growth strategy of BJB. The growth markets are Asia, Middle East, East Europe and South America. In addition, BJB pursues a growth strategy in the existing markets in Switzerland and Germany.

In the context of realisation of the BJB's growth strategy, there is the risk, not only from new but also existing markets, that BJB does not implement its activities in compliance with the applicable local law. Infringement of local regulations may result in the imposition of fines or in the revocation of any local permission, which may lead to a withdrawal of BJB from the affected market. In addition to the consequential direct financial disadvantages, there is also the risk of damage to BJB's reputation domestically and abroad as a result from the violation of local law.

**BJB is exposed to all risks associated with (past and possible future) acquisitions and investments by Julius Baer Group and by BJB which may result in material financial expenditures and losses in particular in case such investments are not successful and indented synergies are not achieved**

## I. RISIKOFAKTOREN

(einschliesslich ihrer Verbindlichkeiten aus Produkten) in Eigenkapital und/oder (iii) allenfalls einen Schuldenschnitt bzw. eine teilweise oder vollständige Reduktion der Verbindlichkeiten der BJB (einschliesslich ihrer Verbindlichkeiten aus Produkten) vorsehen.

**BJB ist als hundertprozentige Tochtergesellschaft der Julius Bär Gruppe AG abhängig von den Entwicklungen/Entscheidungen ihrer Muttergesellschaft und der Julius Bär Gruppe als Ganzes**

Die BJB ist als hundertprozentige Tochtergesellschaft der Julius Bär Gruppe AG (Julius Bär Gruppe AG zusammen mit ihren Tochtergesellschaften die "**Julius Bär Gruppe**") in besonderem Masse von der Entwicklung der Muttergesellschaft und von deren Entscheidungen sowie von der Entwicklung der gesamten Julius Bär Gruppe abhängig.

**Das Wachstum der BJB in neuen und bestehenden Märkten und das potenzielle Versagen der BJB bei der richtigen Umsetzung anwendbarer Gesetze, könnte beispielsweise den Entzug lokaler Bewilligungen nach sich ziehen, was wiederum zum Marktrückzug, und dies zu finanziellen Aufwendungen und Reputationsschäden führen könnte**

Weitere Risiken könnten sich aus der Wachstumsstrategie der BJB ergeben. Die Wachstumsmärkte sind Asien, der Mittlere Osten, Osteuropa und Südamerika. Darüber hinaus verfolgt BJB eine Wachstumsstrategie in den bestehenden Märkten in der Schweiz und in Deutschland.

Im Rahmen der Umsetzung der Wachstumsstrategie der BJB besteht nicht nur in neuen, sondern auch in bestehenden Märkten das Risiko, dass BJB ihre Aktivitäten nicht gemäss lokalem Recht umsetzt. Werden die lokalen Bestimmungen verletzt, droht die Verhängung von Bussgeldern oder der Entzug einer etwaigen lokalen Bewilligung, welcher zu einem Rückzug der BJB aus dem betroffenen Markt führen könnte. Zusätzlich zu den daraus resultierenden direkten finanziellen Nachteilen besteht das Risiko von Reputationsschäden bei BJB im In- und Ausland infolge der Verletzung lokaler Bestimmungen.

**BJB ist jeglichem Risiko im Zusammenhang mit (vergangenen und möglichen zukünftigen) Akquisitionen und Investitionen der Julius Bär Gruppe und von BJB ausgesetzt, welche zu wesentlichen finanziellen Ausgaben und Verlusten führen können, insbesondere für den Fall, dass diese**



## I. RISK FACTORS

Part of the growth strategy of the Julius Baer Group is also the acquisition of other domestic or foreign banks, asset managers or any other operating companies in the financial industry or of business segments. Julius Baer Group intends to execute selected acquisitions also in the future, in order to reinforce and enhance existing activities. Announcements in respect of possible acquisitions and investments by Julius Baer Group may follow at any time. The successful realisation of such growth strategy is subject to various factors, in particular, of the ability of the group to identify profitable acquisition opportunities, the executions of the acquisition at adequate costs and generate adequate profits from the effected acquisitions.

Acquisitions of companies and business segments are subject to risks at all times. Particularly the integration of acquired companies or business segments into the group may result in material financial expenditures and draw upon management resources. There is a risk that the integration costs are substantially higher than expected, or that the integration of the acquired companies or business segments is not or not completely successful and the sought business goals by the acquisition may not be accomplished. Additionally, there is a risk that underlying synergy potentials to the acquisition may not or not completely be realised. Costs or delays in connection with the integration of the acquired company or business segments and/or the failure to realise the synergy potential may have an adverse effect on the net assets, financial position and results of operation of the Julius Baer Group and BJB.

The acquisitions which have been effected by the Julius Baer Group or may possibly be effected may involve further risks, which usually are associated with the acquisition of companies or business segments. Particularly there is the risk that the value of the acquired company or business segment does not correspond to the amount paid. Acquisitions and investments abroad may be subject to special investment regulations. It cannot be guaranteed that the Julius Baer Group can at all times comply with all applicable investment regulations and regulatory requirements for legal systems, in which it undertakes investments. The materialisation of these risks may have an adverse effect on the net assets, financial position and results of operation of the Julius Baer Group and BJB.

## I. RISIKOFAKTOREN

### **Investitionen nicht erfolgreich sind und beabsichtigte Synergien nicht erzielt werden können**

Bestandteil der Wachstumsstrategie der Julius Bär Gruppe sind auch Akquisitionen von anderen in- oder ausländischen Banken, Vermögensverwaltern oder sonstigen im Finanzbereich tätigen Unternehmen oder von Geschäftsteilen. Die Julius Bär Gruppe beabsichtigt, auch in Zukunft ausgewählte Akquisitionen zu tätigen, um ihre bisherigen Aktivitäten zu stärken und weiterzuentwickeln. Ankündigungen über mögliche Akquisitionen und Investitionen der Julius Bär Gruppe können jederzeit erfolgen. Die erfolgreiche Umsetzung dieser Wachstumsstrategie hängt von verschiedenen Faktoren ab, insbesondere von der Fähigkeit der Gruppe, gewinnbringende Akquisitionsgelegenheiten zu identifizieren, die Akquisitionen zu angemessenen Kosten zu tätigen und aus den getätigten Akquisitionen einen angemessenen Ertrag zu erzielen.

Akquisitionen von Unternehmen und Geschäftsteilen sind stets mit Risiken verbunden. Insbesondere kann die Integration von erworbenen Unternehmen oder Geschäftsteilen in die Gruppe erhebliche finanzielle Aufwendungen verursachen und Management-Ressourcen beanspruchen. Es besteht das Risiko, dass die Integrationskosten wesentlich höher ausfallen als erwartet, oder dass die Integration des erworbenen Unternehmens oder Geschäftsteils nicht oder nicht vollständig gelingt und die mit der Akquisition verfolgten Geschäftsziele nicht erreicht werden können. Des Weiteren besteht das Risiko, dass die der Akquisition zugrunde gelegten Synergie-Potenziale möglicherweise nicht oder nicht vollständig realisiert werden können. Kosten oder Verzögerungen im Zusammenhang mit der Integration des erworbenen Unternehmens oder Geschäftsteils und/oder die Nichtrealisierung von Synergie-Potenzialen können einen negativen Einfluss auf die Vermögens-, Finanz- und Ertragslage der Julius Bär Gruppe und der BJB haben.

Die Akquisitionen, welche die Julius Bär Gruppe getätigt hat oder möglicherweise tätigen wird, können weitere Risiken mit sich bringen, welche üblicherweise mit der Akquisition von Unternehmen oder Geschäftsteilen verbunden sind. Insbesondere besteht das Risiko, dass der Wert des erworbenen Unternehmens oder Geschäftsteils nicht dem bezahlten Kaufpreis entspricht. Akquisitionen und Investitionen im Ausland können besonderen Anlagevorschriften unterstehen. Es kann nicht garantiert werden, dass die Julius Bär Gruppe zu jeder Zeit in sämtlichen Rechtsordnungen, in welchen sie Investitionen tätigt, die anwendbaren Anlagevorschriften und behördlichen Auflagen erfüllen kann. Wenn sich diese Risiken verwirklichen, kann dies einen negativen Einfluss auf die Vermögens-, Finanz- und Ertragslage der

## I. RISK FACTORS

**If BJB fails or is unable to adequately protect its intellectual property rights, BJB's competitive position could be adversely affected**

The protection of BJB's brand names is extremely important to BJB's business. Even though BJB registered BJB's brand names in the countries in which it operates, it may become necessary for BJB to defend its intellectual property rights in order to prevent others from misappropriating or infringing on BJB's brand names. Should BJB be unable to adequately protect BJB's brand names its competitive position could be adversely affected. BJB' brand and thereby BJB's reputation might furthermore be adversely affected if a third party, using BJB's brand under a licence agreement, is exposed to negative or adverse publicity, press speculation and threatened or actual legal proceedings. Any misuse of or other adverse impact on the "Julius Baer" brand could adversely affect BJB's reputation, competitive position, results of operations and prospects.

**BJB has generated, and may continue to generate, lower income from commissions and fees due to fluctuations in the financial markets and clients experiencing weaker than expected returns on their investments**

BJB's results of operations depend, to a significant extent, on factors such as the returns enjoyed by its clients on their investments as well as the ability to attract net new money inflows. Weak investment performance in the financial markets, in general, will adversely impact the value of the assets BJB manages for its clients and, therefore, could also have a material adverse effect on BJB's results of operations. In addition, clients experiencing weaker than expected returns on investments BJB offers or recommends relative to investment solutions of or recommended by its competitors could trigger substantial redemptions and outflows from BJB's clients' accounts and hence also have a material adverse effect on BJB's results of operations, financial condition and prospects.

**BJB's risk management policies and procedures may leave BJB exposed to unidentified or unmitigated risks, which could lead to material losses**

## I. RISIKOFAKTOREN

Julius Bär Gruppe und der BJB haben.

**Sollte BJB nicht in der Lage sein, ihre geistigen Eigentumsrechte adäquat zu schützen, könnte die Wettbewerbsposition der BJB beeinträchtigt werden**

Der Schutz der Marken der BJB ist für den Geschäftsbetrieb von BJB ausserordentlich wichtig. Obwohl BJB die Marken der BJB in den Ländern, in denen BJB tätig ist, eingetragen hat, kann es für BJB erforderlich sein, ihre geistigen Eigentumsrechte zu verteidigen, um Dritte davon abzuhalten, die Marken für sich in Anspruch zu nehmen bzw. die Marken der BJB zu verletzen. Falls BJB ihre Marken nicht ausreichend schützen kann, könnte die Wettbewerbsposition der BJB beeinträchtigt werden. Die Marke der BJB und somit die Reputation der BJB könnten ebenfalls beeinträchtigt werden, falls ein Dritter unter Verwendung der Marke der BJB aufgrund einer Lizenzvereinbarung negativer bzw. nachteiliger Berichterstattung in der Öffentlichkeit, Vermutungen in der Presse und drohenden oder tatsächlichen Gerichtsverfahren ausgesetzt ist. Ein Missbrauch oder andere nachteilige Auswirkungen auf die Marke "Julius Bär" könnte die Reputation, die Wettbewerbsposition, die Ertragslage und Aussichten der BJB beeinträchtigen.

**BJB hat und könnte weiterhin geringe Provisions- und Gebühreneinnahmen infolge von Schwankungen in den Finanzmärkten und infolge der Erwirtschaftung von schwächeren Renditen ihrer Kunden erzielen**

Die Betriebsergebnisse der BJB hängen im erheblichen Umfang von Faktoren wie die von ihren Kunden auf deren Anlagen erzielten Renditen sowie von der Fähigkeit zur Gewinnung von Neugeld ab. Schwache Leistung bei Investitionen in den Finanzmärkten wird allgemein den Wert des von BJB für ihre Kunden verwalteten Vermögens beeinträchtigen und könnte somit eine wesentliche nachteilige Auswirkung auf die Ertragslage der BJB haben. Darüber hinaus könnten schwächere Renditen als erwartet für die Kunden bei von der BJB angebotenen bzw. empfohlenen Anlagen im Vergleich zu Investitionslösungen, die von anderen Wettbewerbern angeboten oder empfohlen werden, zu erheblichen Rückzahlungen und Mittelabflüssen von Kundenkonten bei BJB führen und somit die Ertrags- und die Finanzlage und Aussichten der BJB wesentlich beeinträchtigen.

**Die Richtlinien und das Verfahren des Risikomanagements bei BJB könnten dazu führen, dass BJB nicht identifizierte und nicht geminderte Risiken hat, die zu wesentlichen Verlusten führen**

## I. RISK FACTORS

BJB has risk management policies and procedures in place to cover strategic and business risk, credit risk, market risk, liquidity and financing risk, operational risk and reputational risk. If these policies and procedures were inadequate to address the risks BJB faces or were not properly adhered to, BJB may experience material losses.

BJB takes various actions to address risks that arise in its businesses, including entering into hedging transactions to address the market risks relating to BJB's activities in the issuance of investment products, market making and proprietary trading. BJB's policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating its risk exposure in all economic market environments or against all types of risks, including risks which BJB fails to identify or anticipate. This is particularly true during times of extreme market conditions when, for instance, historically observed patterns of correlation and volatility of asset values break down, market-wide liquidity constraints materialise and counterparty risk increases to dramatic levels. Other risk management methods depend upon the evaluation of information regarding markets, customers or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, up-to-date or properly evaluated.

**BJB has a certain degree of client concentration, and to the extent BJB is unable to retain these clients or sufficiently diversify its client base, its results of operations may suffer**

As a pure private banking organisation, BJB is exposed to a certain degree of client concentration risk. A significant portion of BJB's customers are high net worth clients. Those individuals and their households have, to a certain degree, similar socio-economic characteristics and they are likewise exposed to comparable macroeconomic and regulatory risks. Although BJB has made progress in diversifying the geographical mix of its client base, it will continue to be exposed to client concentration risk. In addition, a limited number of ultra-high-net-worth individuals will continue to be significant to BJB in terms of assets under management. If BJB is unable to retain these clients or sufficiently diversify its

## I. RISIKOFAKTOREN

### könnten

BJB hat Richtlinien und Prozesse im Risikomanagement, um das strategische und Geschäftsrisiko, das Kreditrisiko, das Marktrisiko, das Liquiditäts- und Finanzrisiko, das Betriebsrisiko und das Reputationsrisiko abzudecken. Falls diese Richtlinien und das Verfahren nicht ausreichend wären, um die Risiken bei BJB abzudecken oder falls diese nicht ordnungsgemäss eingehalten würden, könnte BJB erhebliche Verluste erleiden.

BJB trifft verschiedene Vorkehrungen, um den Risiken zu begegnen, die sich aus ihrer Geschäftstätigkeit ergeben, einschliesslich des Abschlusses von Absicherungsgeschäften gegen Marktrisiken im Zusammenhang mit BJB's Aktivitäten im Bereich der Emission von Investitionsprodukten, dem Market-Making- und Eigenhandelsaktivitäten. BJB's Richtlinien und Verfahren zur Feststellung, Überwachung und Bewirtschaftung ihrer Risiken sind möglicherweise nicht in jedem Fall erfolgreich bei der Reduzierung der Risiken in sämtlichen wirtschaftlichen Marktumfeldern bzw. bei sämtlichen Risikoarten, einschliesslich solcher Risiken, die BJB nicht erkennt bzw. nicht erwartet. Dies gilt insbesondere in Zeiten extremer Marktbedingungen, wenn beispielsweise in der Vergangenheit beobachtete Korrelations- und Volatilitätsmuster von Vermögenswerten nicht mehr gelten, im ganzen Markt Liquiditätsdruck entsteht und die Gegenpartei Risiken dramatisch ansteigen. Andere Methoden des Risikomanagements hängen von der Beurteilung der Marktinformationen, der Kundeninformation und anderen öffentlich verfügbaren bzw. zugänglichen Informationen ab. Diese Informationen könnten nicht in allen Fällen richtig und aktuell sein bzw. richtig bewertet werden.

**BJB hat einen bestimmten Grad an Kundendichte, und sofern BJB diese Kunden nicht behalten kann oder Ihren Kundenstamm nicht ausreichend diversifizieren kann, könnte die Ertragslage der BJB darunter leiden**

Als eine reine Privatbank ist BJB einem gewissen Klumpenrisiko bei ihren Kunden ausgesetzt. Ein wesentlicher Anteil der Kunden der BJB sind vermögende Privatpersonen. Diese Personen und deren Familien haben in einem bestimmten Masse ähnliche gesellschaftliche und wirtschaftliche Eigenschaften, und sie haben ebenfalls vergleichbare konjunkturelle und regulatorische Risiken. Obwohl BJB bei der Diversifizierung der geographischen Zusammensetzung des Kundenstamms Fortschritte gemacht hat, wird BJB weiterhin ein Klumpenrisiko hinsichtlich der Kunden haben. Darüber hinaus wird eine beschränkte Anzahl von sehr vermögenden Privatpersonen weiterhin für BJB im

## I. RISK FACTORS

client base, its results of operation, financial condition and prospects may be adversely affected.

### **BJB may incur significant losses from its market making and proprietary trading activities due to market fluctuations**

BJB engages in certain limited market making activities principally in respect of its own structured products and proprietary trading activities in foreign exchange, fixed-income and equity markets, including derivatives markets, as well as in precious metals, and is therefore exposed to losses in the event of adverse market movements (whether up or down) in specific equities, fixed-income or other products, baskets of securities, indices and the markets generally. BJB's trading positions can also be adversely affected by the level of volatility in the financial markets (that is, the degree to which prices fluctuate over a particular period) regardless of market levels. There can be no assurance that future results from market making and proprietary trading will not be materially and adversely different from those experienced in recent periods.

In connection with its market making and proprietary trading activities, BJB attempts to mitigate related market risks by entering into hedging transactions, which may include over-the-counter derivative contracts or the purchase or sale of securities, financial futures, options or forward contracts. If any of the variety of instruments and strategies BJB uses to hedge its exposure to market risks are not effective, BJB may incur losses. Many of BJB's strategies are based on historical trading patterns and correlations. However, these strategies may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk. Unexpected market developments may in the future also affect a number of hedging strategies.

### **BJB is exposed to the risk of losses as a result of employee fraud, misconduct or improper practice**

Fraud, misconduct or improper practice by any of BJB's employees could expose it to the risk of direct and/or indirect financial loss and damage to its reputation. Such fraud, misconduct and improper practice could involve, for example, fraudulent transactions entered into for a

## I. RISIKOFAKTOREN

Hinblick auf das verwaltete Vermögen von erheblicher Bedeutung sein. Falls BJB diese Kunden nicht behalten oder ihren Kundenstamm nicht ausreichend diversifizieren kann, könnte die Ertrags- und Finanzlage und Aussichten der BJB beeinträchtigt werden.

### **BJB könnte erhebliche Verluste aus ihren Market-Making und Eigenhandelstätigkeiten infolge von Marktschwankungen erleiden**

BJB übt in beschränktem Umfang Market-Making-Tätigkeiten hauptsächlich hinsichtlich ihrer eigenen strukturierten Produkte aus und betreibt Eigenhandel in Devisen-, Anleihen- und Aktien- einschliesslich Derivate-Märkten sowie Edelmetalleigenhandel und hat daher ein Verlustrisiko bei nachteiligen Bewegungen im Markt (seien sie aufwärts oder abwärts) im Rahmen von bestimmten Aktien, Anleihen und anderen Produkten sowie bei Körben von Wertpapieren, Indizes und allgemein in den Märkten. Die Handelspositionen von BJB könnten auch durch den Grad der Volatilität in den Finanzmärkten (d.h. die Schwankungen von Preisen über einen bestimmten Zeitraum) ungeachtet des Marktstands beeinträchtigt werden. Es gibt keine Sicherheit, dass künftige Ergebnisse aus dem Market-Making und Eigenhandel sich nicht wesentlich und nachteilig von den Ergebnissen in den letzten Zeiträumen unterscheiden können.

Im Zusammenhang mit ihren Market-Making und Eigenhandelstätigkeiten versucht BJB, die damit zusammenhängenden Marktrisiken durch den Abschluss von Absicherungsgeschäften zu mindern, einschliesslich ausserbörslichen Derivaten oder den Kauf bzw. Ankauf von Wertpapieren, Finanztermingeschäften, Optionen oder Termingeschäften. Falls eines der von BJB zur Absicherung ihres Marktrisikos eingesetzten Instrumente und Strategien nicht wirksam ist, könnten der BJB dadurch Verluste entstehen. Viele Strategien der BJB beruhen auf historischen Handelsmustern und Korrelationen. Diese Strategien könnten jedoch bei der Minderung des Risikos in allen Marktumgebungen und bei sämtlichen Arten von Risiken nicht voll wirksam sein. Unerwartete Entwicklungen im Markt könnten künftig auch eine Reihe von Absicherungsstrategien beeinflussen.

### **BJB ist dem Risiko ausgesetzt, aufgrund von Betrug, Fehlverhalten oder nicht ordnungsgemässer Handhabung durch Mitarbeiter Verluste zu erleiden**

Betrug, Fehlverhalten oder nicht ordnungsgemässe Handhabung durch Mitarbeiter von BJB könnten zum Risiko von unmittelbaren und/oder mittelbaren finanziellen Verlusten und Reputationsschäden führen. Ein solcher Betrug, solches Fehlverhalten und eine nicht

## I. RISK FACTORS

client's account, the intentional or inadvertent release of confidential customer information or failure to follow internal procedures. Such actions by employees may, again by way of example only, expose BJB to financial losses resulting from the need to reimburse customers or as a result of fines or other regulatory sanctions and may lead to damage BJB's reputation. Such financial losses and reputational damages may adversely affect BJB's business, results of operations and financial condition.

## I. RISIKOFAKTOREN

ordnungsgemäße Handhabung könnten zum Beispiel im Abschluss von betrügerischen Transaktionen für Rechnung eines Kunden, vorsätzlicher bzw. fahrlässiger Offenlegung von vertraulichen Kundeninformationen oder Nichtbeachtung von internen Verfahrensregeln bestehen. Solche Handlungen durch Mitarbeiter könnten BJB beispielsweise der Gefahr von finanziellen Verlusten infolge der Notwendigkeit zur Rückerstattung von Geldern an Kunden oder infolge von Bussgeldern oder anderen regulatorischen Sanktionen aussetzen und zum Reputationsschaden bei der BJB führen. Solche finanziellen Verluste und ein solcher Reputationsschaden könnte den Geschäftsbetrieb, die Ertrags- und Finanzlage der BJB beeinträchtigen.

II. BANK JULIUS BAER & CO. LTD.,  
ZURICH

II. BANK JULIUS BAER & CO. LTD.,  
ZURICH

### 1. General Information about BJB

As depicted in below chart, BJB, together with the group companies as Bank Julius Bär Europe AG, Frankfurt a.M., Bank Julius Baer (Monaco) S.A.M., Bank Julius Baer Luxembourg S.A. and others, is a fully owned subsidiary of Julius Baer Group Ltd. (Julius Baer Group Ltd. together with its subsidiaries the "**Julius Baer Group**"). Julius Baer Group Ltd. was formed in 2009 out of a split-up of business segments of Julius Baer Holding Ltd. The Julius Baer Group mainly comprises banks and finance companies.

As of the date of this Registration Document BJB itself holds 100 per cent. in the shares of Bank Julius Baer Nominees (Singapore) Pte. Ltd., Singapore and of Arpese SA, Lugano.

In March 2014, Julius Baer Group Ltd. has acquired an additional 50 per cent of São-Paulo-based GPS Investimentos Financeiros e Participações S.A. ("**GPS**"). This increased Julius Baer Group Ltd.'s participation in GPS to 80 per cent from the 30 per cent acquired in May 2011. On 1 March 2016, Julius Baer Group Ltd. Increased its participation in GPS to 100%.

In November 2015, Julius Baer 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.

On 1 April 2016, Julius Baer 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. Julius Baer Group paid CHF 2.5 million in cash for this additional interest which was fully funded by existing excess capital of Julius Baer 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.

II. BANK JULIUS BÄR & CO. AG, ZÜRICH

II. BANK JULIUS BÄR & CO. AG, ZÜRICH

### 1. Allgemeine Informationen über BJB

Wie im untenstehenden Diagramm dargestellt, ist BJB, zusammen mit den Gruppengesellschaften Bank Julius Bär Europe AG, Frankfurt a.M., Bank Julius Baer (Monaco) S.A.M., Bank Julius Baer Luxembourg S.A. und anderen, eine vollständige Tochtergesellschaft der Julius Bär Gruppe AG (Julius Bär Gruppe AG zusammen mit allen Tochtergesellschaften die "**Julius Bär Gruppe**"). Die Julius Bär Gruppe AG ist 2009 aus der Aufteilung der Geschäftsbereiche der ehemaligen Julius Bär Holding AG hervorgegangen. Die Julius Bär Gruppe besteht hauptsächlich aus Banken und Finanzgesellschaften.

BJB hält zum Datum dieses Registrierungsformulars 100% der Anteile an Bank Julius Baer Nominees (Singapore) Pte. Ltd., Singapur und Arpese SA, Lugano.

Im März 2014 hat die Julius Bär Gruppe AG einen weiteren Anteil von 50 Prozent an der in São Paulo domizilierten GPS Investimentos Financeiros e Participações ("**GPS**") erworben. Dadurch erhöhte sich die Beteiligung der Julius Bär Gruppe AG an GPS von den im Mai 2011 akquirierten 30 Prozent auf 80 Prozent. Am 1. März 2016 erhöhte die Julius Bär Gruppe AG die Beteiligung an GPS auf 100%.

Im November 2015 hat die Julius Bär Gruppe beschlossen, ihre Option auszuüben und ihren Anteil an der in Mailand domizilierten Kairos Investment Management SpA durch den Kauf des zusätzlichen Anteils von 60.1% zu erhöhen. 2013 hatte die Julius Bär Gruppe bereits einen Anteil von 19.9% erworben. Die Transaktion wurde am 1. April 2016 ausgeführt.

Am 1. April 2016 hat die Julius Bär Gruppe ihre Option auf den Erwerb des ausstehenden 40%-Anteils ihrer auf den japanischen Markt fokussierten Tochtergesellschaft Julius Bär Wealth Management AG (JBWM), die frühere TFM Asset Management Ltd., ausgeübt. Die Julius Bär Gruppe bezahlte einen Betrag von CHF 2.5 Millionen in bar für den zusätzlichen Anteil, der vollständig aus bestehendem Überschusskapital der Julius Bär Gruppe beglichen wurde. JBWM, eine in der Schweiz registrierte unabhängige Assetmanagement-Gesellschaft, ist spezialisiert auf diskretionäre Vermögensverwaltungsdienstleistungen für vermögende Privatkunden aus Japan und der Schweiz und hält

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

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

In February 2017, Julius Baer Group acquired the Zurich based Wergen & Partner Vermögensverwaltungs Ltd., a Swiss independent asset management company, which was established in 2010 and managed assets totaling more than CHF 600 million focusing on the core markets of Switzerland, Germany and Austria, which was subsequently merged into WMPartners Wealth Management Ltd., another asset management company of the Julius Baer Group..

As per 1 December 2017 WMPartners Wealth Management Ltd. was merged into BJB to create a multi custody offering within BJB, whereas the business of former Wergen & Partner Vermögensverwaltungs AG was carved out to again separately continue being operated as independent asset manager of the Group under its former name.

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

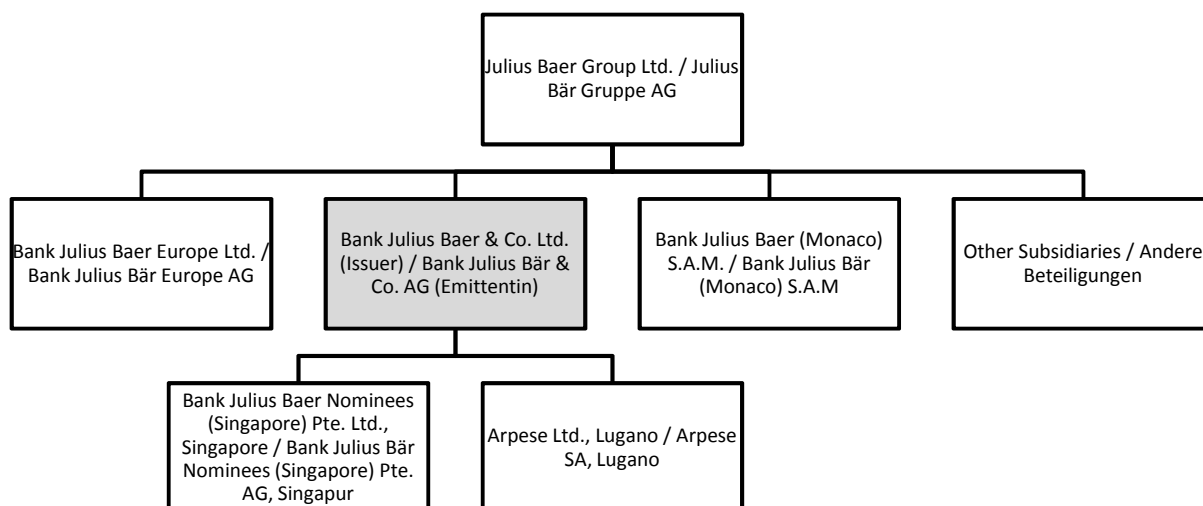
Lizenzen der japanischen Finanzmarktaufsicht für die Anlageberatung sowie das Investmentmanagement.

Am 4. Juli 2016 hat die Julius Bär Gruppe die Commerzbank International S.A. Luxembourg, erworben. Diese verfügt über eine Lizenz als Privatbank. Die Transaktion wird die Präsenz der Julius Bär Gruppe in Luxemburg erheblich stärken und verschafft der Julius Bär Gruppe zusätzliche strategische Flexibilität bezüglich ihres Europa- Geschäftes, unter anderem weil damit auch der Erwerb einer Buchungsplattform verbunden ist (*Quelle: Interne Daten*). Der Kaufpreis in der Höhe von CHF 84.9 Millionen wurde vollständig in bar aus bestehendem Überschusskapital der Gruppe bezahlt. Die erworbene Gesellschaft wurde in Bank Julius Baer Luxembourg S.A, Luxemburg, umfirmiert.

Im Februar 2017 hat die Julius Bär Gruppe die in Zürich domizilierte Vermögensverwaltungsgesellschaft Wergen & Partner Vermögensverwaltungs AG erworben, welche im Jahre 2010 gegründet worden war und Vermögenswerte in Höhe von mehr als CHF 600 Millionen mit Fokus auf die Kernmärkte Schweiz, Deutschland und Österreich verwaltete. Die Wergen & Partner Vermögensverwaltungs AG wurde danach in die WMPartners Wealth Management AG, eine andere Vermögensverwaltungsgesellschaft der Julius Bär Gruppe, fusioniert.

Per 1. Dezember 2017 wurde die WMPartners Wealth Management AG in die BJB fusioniert, um dort ein sogenanntes multi custody Angebot zu schaffen, während das Geschäft der ehemaligen Wergen & Partner Vermögensverwaltungs AG herausgelöst wurde und wieder separat unter dem früheren Namen geführt wird.

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH ZÜRICH



BJB is dependent on its sole shareholder, Julius Baer Group Ltd., and thus on its business strategy for the entire Julius Baer Group.

An important function provided by Julius Baer Group is risk management. Risk management is regarded by the Julius Baer Group as a business enabler and as such forms a cornerstone of the management procedures of the Julius Baer Group. The overall responsibility for the implementation of risk management in the Julius Baer Group is that of the group management.

BJB is registered with the names Bank Julius Bär & Co. AG, Banque Julius Baer & Cie. SA, Bank Julius Baer & Co. Ltd. and Banca Julius Baer & Co. SA in the Commercial Register of the Canton of Zurich under the number CH-020.3.902.727-1 since 31 December 1974 and in the UID-Register under CHE-105.940.833. Those names refer to one and the same entity. BJB has no commercial names.

BJB is a stock corporation with limited liability under the laws of Switzerland and was founded in Switzerland on 31 December 1974. It is acting through its head office or a designated branch. BJB took over the banking operations of its predecessor, the private bank Julius Baer & Co., which began its operations in the 1890s.

BJB ist abhängig von seinem einzigen Aktionär, der Julius Bär Gruppe AG, und damit auch von deren Geschäftsstrategie für die gesamte Julius Bär Gruppe.

Die Julius Bär Gruppe übernimmt mit dem Risikomanagement eine bedeutende Funktion. Risikomanagement ist innerhalb der Julius Bär Gruppe anerkannt als notwendige Voraussetzung für die Geschäftstätigkeit und ist deshalb einer der Grundpfeiler des Verfahrens- und Prozessmanagements der Julius Bär Gruppe. Die übergreifende Verantwortung für die Umsetzung des Risikomanagements innerhalb der Julius Bär Gruppe liegt bei der Leitung der Gruppe.

BJB ist mit der Firma Bank Julius Bär & Co. AG, Banque Julius Baer & Cie. SA, Bank Julius Baer & Co. Ltd. und Banca Julius Baer & Co. SA im Handelsregister des Kantons Zürich unter der Nummer CH-020.3.902.727-1 seit 31. Dezember 1974 und im UID-Register unter der Nummer CHE-105.940.833 eingetragen. Die genannten Namen beziehen sich auf ein und dieselbe juristische Person. BJB hat keinen kommerziellen Namen.

BJB ist eine Aktiengesellschaft nach Schweizer Recht und wurde am 31. Dezember 1974 in der Schweiz gegründet. Sie handelt durch ihre Hauptniederlassung oder eine dazu bestimmte Zweigniederlassung. BJB übernahm das Bankgeschäft der vormaligen Privatbank Julius Bär & Co., deren Anfänge in die 90er Jahre des 19. Jahrhunderts zurückreichen.



## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

Its registered office is at Bahnhofstrasse 36, 8001 Zurich, Switzerland (telephone number: +41 (0) 58 888 1111). BJB has branch offices in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lugano, Lucerne, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug and Zurich. It also has representations in Abu Dhabi, Dubai, Istanbul, Montevideo (subsidiary of Julius Baer Group Ltd., acting as representative office of Bank Julius Baer & Co. Ltd.), Moscow, Panama City, Santiago de Chile, Shanghai and Tel Aviv.

BJB's branch in Guernsey has its registered office at Lefebvre Court, Lefebvre Street, P.O. Box 87, St. Peter Port, GBG-Guernsey GY1 4 BS (telephone number: +44 (0) 1 481 726 618). It is licensed in Guernsey under the Banking Supervision (Bailiwick of Guernsey) Law 1994 and The Protection of Investors (Bailiwick of Guernsey) Law 1987.

### 2. Statutory Auditors of BJB

For the financial years ended 31 December 2016 and 31 December 2017, the independent auditors of BJB were KPMG AG, Badenerstrasse 172, 8004 Zurich, Switzerland, acting in terms of the provisions of company and banking law as well as BJB's articles of association. KPMG AG have audited the consolidated financial statements of BJB for the financial years ended 31 December 2016 and 31 December 2017 and the financial statements of BJB for the years ended 31 December 2016 and 31 December 2017. KPMG AG is a member of the Swiss Institute of Certified Accountants and Tax Consultants with registered office in Zurich.

### 3. Business overview of BJB

#### Principal Activities

BJB operates a bank and may, in accordance with Article 2 of its articles of incorporation dated 30 November 2015, execute all transaction which are directly or indirectly related to the purpose of BJB as well as all transactions which may further the purpose of BJB; such transactions may be executed for BJB 's own account or for third parties. BJB may purchase real estate, pledge it as security and sell it. BJB may be active domestically and abroad. BJB may establish branches and agencies domestically and abroad.

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Der Sitz der Emittentin ist in der Bahnhofstrasse 36, 8001 Zürich, Schweiz (Telefonnummer: +41 (0) 58 888 1111). BJB hat Niederlassungen in Basel, Bern, Crans-Montana, Genf, Guernsey, Hongkong, Kreuzlingen, Lausanne, Lugano, Luzern, Singapur, Sion, St. Gallen, St. Moritz, Verbier, Zug und Zürich. Sie hat Vertretungen in Abu Dhabi, Dubai, Istanbul, Montevideo (dies ist eine Tochtergesellschaft der Julius Bär Gruppe AG handelnd als Vertreter für BJB), Moskau, Panama City, Santiago de Chile, Shanghai und Tel Aviv.

Die Zweigniederlassung der BJB in Guernsey hat ihren Sitz in Lefebvre Court, Lefebvre Street, P.O. Box 87, St. Peter Port, GBG-Guernsey GY1 4 BS (Telefonnummer: +44 (0) 1 481 726 618). Sie ist lizenziert in Guernsey unter dem Banking Supervision (Bailiwick of Guernsey) Law 1994 und The Protection of Investors (Bailiwick of Guernsey) Law 1987.

### 2. Abschlussprüfer | Gesetzliche Revisionsstelle der BJB

Für die am 31. Dezember 2016 und am 31. Dezember 2017 beendeten Geschäftsjahre war KPMG AG Badenerstrasse 172, 8004 Zürich, Schweiz der unabhängigen Abschlussprüfer der BJB gemäss Gesellschafts- und Bankrecht sowie BJBs Statuten. KPMG AG hat die konsolidierten Finanzberichte der BJB für die am 31. Dezember 2016 und am 31. Dezember 2017 beendeten Geschäftsjahre und die Finanzberichte der BJB für die am 31. Dezember 2016 und am 31. Dezember 2017 beendeten Geschäftsjahre geprüft. KPMG AG ist Mitglied der Treuhandkammer mit Sitz in Zürich.

### 3. Geschäftsüberblick der BJB

#### Haupttätigkeiten

BJB betreibt eine Bank und kann, entsprechend Artikel 2 ihrer Statuten vom 30. November 2015, alle mit diesem Zweck direkt oder indirekt im Zusammenhang stehenden Geschäfte sowie alle Geschäfte, die diesen Zweck zu fördern geeignet sind, für eigene oder fremde Rechnung tätigen. Die Gesellschaft kann Grundstücke erwerben, belasten und veräussern. Der Geschäftsbereich erstreckt sich auf das In- und Ausland. BJB darf Niederlassungen und Agenturen im In- und Ausland eröffnen.

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

BJB's core business is wealth management and investment counselling for private clients, family offices and external asset managers from around the world. In cooperation with other companies of the Julius Baer Group, comprehensive services are offered i.a. in the areas of wealth and tax planning, foreign exchange, equity, precious metals and fund trading, custody and execution services and other, complementary business fields. BJB is also active in the Lombard credit business for portfolio management and trading clients and provides straight residential mortgages to its private clients, predominantly in Switzerland, but also in high-end market areas of other European countries. Within the Julius Baer Group, BJB operates as the central underwriter for traditional and innovative derivative investment products. BJB also engages in securities lending and borrowing.

### Principal Markets

The most important markets are the home market in Switzerland, Asia and continental Europe. BJB expects the markets in the Middle East and South America to gain in importance. In 2017, BJB achieved (according to the audited BJB Consolidated Financial Information 2017 which has been prepared in accordance with International Financial Reporting Standards ("IFRS") (See "*II.8. Historical Financial Information of BJB*" below, Appendix 2 page G-66) an operating income of CHF 2,544 million, thereof CHF 1,895 million in Switzerland, CHF 110 million in Europe (excluding Switzerland), CHF 597 million in Asia and other countries and CHF -58 million consolidation items. (on BJB's branches and representative offices See "*II. 1. General Information about BJB*" above).

### Competitive Position

The following information on the Issuer's competitive position is based on BJB's own assessment of the situation:

The Julius Baer Group is well established in the market as an international offeror with a tailor-made and versatile range of products and is currently present in some 50 locations worldwide. Julius Baer Group engages exclusively in private banking activities primarily in

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Das wichtigste Geschäftsgebiet der BJB ist die Vermögensverwaltung und Anlageberatung für Privatkunden, Familienunternehmen und unabhängige Vermögensverwalter aus aller Welt. In Zusammenarbeit mit anderen Gesellschaften der Julius Bär Gruppe werden umfassende Dienstleistungen u.a. in den Bereichen Wealth & Tax Planning, Devisen- und Wertschriftenhandel, Edelmetall- und Fondshandel, Depot- und Abwicklungsleistungen sowie in weiteren ergänzenden Geschäftsfeldern angeboten. Für ihre Portfolio-Management- und Handelskunden ist die BJB ausserdem im Lombard-Kreditgeschäft tätig. Sie bietet ihren Privatkunden, vor allem in der Schweiz, aber auch in High-end-Märkten in anderen europäischen Ländern, Hypotheken für Wohnimmobilien an. Innerhalb der Julius Bär Gruppe übernimmt BJB die zentrale Funktion als Emissionshaus für traditionelle und innovative derivative Anlageprodukte wahr. Zudem ist die Emittentin aktiv im Wertpapierleihgeschäft (Securities Lending and Borrowing).

### Wichtigste Märkte

Die wichtigsten Märkte sind der Heimatmarkt Schweiz sowie Asien und Kontinentaleuropa. BJB erwartet, dass die Märkte Mittlerer Osten und Südamerika an Bedeutung gewinnen.<sup>1</sup> 2017 erreichte BJB gemäss den geprüften BJB Konsolidierten Finanzinformationen 2017, die gemäss den internationalen Rechnungslegungsstandards IFRS ("IFRS") erstellt wurden, (siehe "*II.8. Historische Finanzinformationen der BJB*" nachstehend, Appendix 2 Seite G-66) ein Betriebsertrag in Höhe von CHF 2.544 Millionen, davon CHF 1.895 Millionen in der Schweiz, CHF 110 Millionen in Europa (ohne Schweiz), CHF 597 Millionen in Asien und anderen Ländern sowie CHF -58 Million Konsolidierungsposten. (zu BJB's Niederlassungen und Repräsentanzen siehe "*II. 1. Allgemeine Informationen über BJB*" oben).

### Wettbewerbsposition

Die nachfolgende Information über die Wettbewerbsposition der Emittentin basiert auf der eigenen Einschätzung der BJB:

Die Julius Bär Gruppe ist als internationaler Anbieter einer massgeschneiderten und vielfältigen Produktpalette gut im Markt etabliert und ist derzeit an rund 50 Standorten weltweit präsent. Die Julius Bär Gruppe konzentriert sich ausschliesslich auf Private-Banking

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

Switzerland, Europe, Asia, the Middle East and South America.

BJB's asset management business is characterised by increasing competition and accelerating consolidation in private banking in Switzerland. The consolidation is not least being forced along by the rising costs of information technology and increasing regulation, which are growing ever more burdensome for smaller institutions. In addition, there has been a growth in competition between international financial centres such as London, Singapore and Switzerland. In view of these circumstances, BJB is endeavouring to strengthen its private banking position in Switzerland and to selectively develop its private banking activities abroad. Further events in the past years, which have an impact on the private banking business in Switzerland are, in particular, the increase of pressure on Swiss banking secrecy provisions, the announcement of tax amnesties by certain countries, such as Italy as well as the new negotiation of double taxation treaties.

### 4. Trend Information regarding the Business Prospects

There has been no material adverse change in the prospects of BJB, since the date of its last published audited financial statements (31 December 2017).

With improving growth prospects for the world economy, continuing supply of liquidity by central banks and a rising number of outright political shocks, investor focus shifted from deflation fear to political fear in 2017. These developments were met by volatile but relatively resilient financial markets and gave ample opportunity to guide and advise clients. It is expected that the prevailing uncertainty will keep client activity subdued also in 2018, which continued to weigh on margins (*Source: Internal data*).

### 5. Management of BJB

BJB has a Board of Directors and an Executive Board. The Executive Board is appointed by the Board of Directors. The Executive Board and Board of Directors are, as required by Swiss banking law, kept strictly separate from each other. The Board of Directors is responsible for the supreme management and strategic orientation of BJB and for the supervision of the Executive Board. The Executive Board is responsible for

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Aktivitäten, und zwar vorwiegend in der Schweiz, in Europa, in Asien, im Mittleren Osten und in Südamerika.

BJBs Vermögensverwaltungsgeschäft ist durch zunehmenden Wettbewerb und fortschreitende Konsolidierung des Private Banking-Sektors in der Schweiz geprägt. Die Konsolidierung wird nicht zuletzt beschleunigt durch steigende Kosten für Informationstechnologien und zunehmende Regulierung, welche auf kleineren Institutionen noch stärker lasten. Zusätzlich nimmt der Wettbewerb zwischen internationalen Finanzzentren wie London, Singapur und der Schweiz zu. Vor dem Hintergrund dieser Umstände bemüht sich BJB, ihre Private Banking Position in der Schweiz zu stärken und seine Private Banking Tätigkeiten im Ausland gezielt zu entwickeln. Zudem haben in den letzten Jahren weitere Ereignisse das Private Banking-Geschäft in der Schweiz beeinflusst, insbesondere der steigende Druck auf das Schweizer Bankgeheimnis, die Verkündung von Steueramnestien in bestimmten Ländern, wie in Italien, sowie die Neuverhandlung von Doppelbesteuerungsabkommen.

### 4. Trendinformationen in der Geschäftsentwicklung

Es haben sich im Hinblick auf die Aussichten der BJB seit dem Datum der letzten geprüften und veröffentlichten Jahresabschlüsse (31. Dezember 2017) keine wesentlich nachteiligen Änderungen ergeben.

Mit den sich verbessernden Wachstumsaussichten für die Weltwirtschaft, der fortgesetzten Liquiditätsversorgung durch die Zentralbanken und einer steigenden Zahl regelrechter politischer Schocks verlagerte sich der Fokus der Anleger 2017 von Deflationsängsten zu politischen Ängsten. Diese Entwicklungen trafen auf volatile, aber relativ robuste Finanzmärkte und boten reichlich Gelegenheit, Kunden zu begleiten und zu beraten. Es ist zu erwarten, dass die anhaltende Unsicherheit die Kundenaktivitäten auch im 2018 gedämpft hält, was weiter auf den Margen lastete (*Quelle: Interne Daten*).

### 5. Geschäftsführung der BJB

BJB hat einen Verwaltungsrat und eine Geschäftsleitung. Der Verwaltungsrat ernennt die Geschäftsleitung. Die Geschäftsleitung und der Verwaltungsrat sind gemäss Schweizer Bankrecht, streng voneinander getrennt. Der Verwaltungsrat ist verantwortlich für die oberste Führung des Geschäfts und für die strategische Ausrichtung der BJB sowie für die Aufsicht der Geschäftsleitung. Die Geschäftsleitung ist verantwortlich für die operative

II. BANK JULIUS BAER & CO. LTD., ZÜRICH

the operational management of the company.

Members of the Board of Directors of BJB are identical to members of the Board of Directors of Julius Baer Group Ltd. The members of the Board of Directors are newly elected or re-elected a 1 year-term. Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the Annual General Meeting, the Board of Directors constitutes itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members of the Board of Directors shall as a general rule not stand for re-election as from the year in which they reach the age of 75 years. The Executive Board of BJB has some members who are also members of the Executive Board of Julius Baer Group Ltd.

**Board of Directors of BJB**

All members of the Board of Directors of BJB are non-executive members. The Board of Directors of BJB is composed of the same members as the Board of Directors of Julius Baer Group Ltd.

As of the date of this Registration Document the members of the Board of Directors of BJB the members of the Board of Directors of were:

II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Führung des Unternehmens.

Die Mitglieder des Verwaltungsrats der BJB sind identisch mit den Mitgliedern des Verwaltungsrats der Julius Bär Gruppe AG. Neu zu wählende sowie wieder zu wählende Verwaltungsratsmitglieder werden für die Dauer von 1 Jahr gewählt. Mit Ausnahme der Wahl des Präsidenten des Verwaltungsrates sowie der Mitglieder des Compensation Committee durch die Generalversammlung konstituiert sich der Verwaltungsrat selbst. Die maximale (kumulierte) Amtsdauer für die Mitglieder des Verwaltungsrates beträgt in der Regel zwölf Jahre. Mitglieder des Verwaltungsrats stellen sich in der Regel ab jenem Jahr nicht mehr zur Wiederwahl, in welchem sie ihr 75. Lebensjahr vollenden. Die Geschäftsleitung der BJB hat einzelne Mitglieder, die auch in der der Geschäftsleitung der Julius Bär Gruppe AG vertreten sind.

**Verwaltungsrat der BJB**

Alle Mitglieder des Verwaltungsrates der BJB sind nicht exekutive Mitglieder. Der Verwaltungsrat der BJB wird in identischer personeller Besetzung geführt wie der Verwaltungsrat der Julius Bär Gruppe AG.

Zum Datum dieses Registrierungsformulars gehören folgende Personen dem Verwaltungsrat der BJB an:

Name, place of origin/ Bürgerort Business address /Geschäftsadresse	Position held / Ausgeübte Position	Significant outside activities / Wesentliche externe Tätigkeiten
Daniel J. Sauter, Zürich Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Chairman / Präsident des Verwaltungsrats	Co-Founder and Chairman of the Board of Directors of Trinsic AG, Zug, Switzerland / Mitgründer und Präsident des Verwaltungsrates der Trinsic AG, Zug, Schweiz  Member of the Foundation Board of Avenir Suisse, Zurich, Switzerland / Mitglied des Stiftungsrates der Avenir Suisse, Zürich, Schweiz  Member of the Board of Directors of ARAS Holding AG, Lenzburg, Switzerland (Holding Company), incl. AS Print AG, Villmergen and Richnerstutz AG, Villmergen, Switzerland / Präsident des Verwaltungsrates der ARAS Holding AG, Lenzburg, Schweiz (Dachgesellschaft), inkl. AS Print AG, Villmergen und Richnerstutz AG, Villmergen Schweiz  Chairman of the Board of Directors of Hadimec AG, Maegenwil, Switzerland / Präsident des Verwaltungsrates der Hadimec

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

		<p>AG, Mägenwil, Schweiz</p> <p>Chairman of the Board of Directors of Tabulum AG, Zug, Switzerland / Präsident des Verwaltungsrates der Tabulum AG, Zug, Schweiz</p> <p>Member of the Board of Directors of Sika Ltd, Baar, Switzerland / Mitglied des Verwaltungsrates der Sika AG, Baar, Schweiz</p>
<p>Gilbert Achermann, Reiden</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Chairman of the Board of Directors of Strauman Group, Basle, Switzerland / Präsident des Verwaltungsrates der Straumann Gruppe, Basel, Schweiz</p> <p>Member of the Board of Directors of the ITI Association and ITI Foundation, Basle, Switzerland / Mitglied des Verwaltungsrates der ITI Association und ITI Foundation, Basel, Schweiz</p> <p>Member of the Executive Committee of 'Groove Now! Basel' Basle, Switzerland / Mitglied des Vorstands von 'Groove Now! Basel', Basel, Schweiz</p> <p>Chairman of the Board of Directors of Switzerland Innovation Park Basel Area AG, Basle, Switzerland / Präsident des Verwaltungsrates der Switzerland Innovation Park Basel Area AG, Basel, Schweiz</p> <p>Member of the Executive Committee and its Commission of the Chamber of Commerce of both Basle, Basle, Switzerland / Mitglied des Vorstandes sowie seines Ausschusses, Handelskammer beider Basel, Basel. Schweiz</p>
<p>Ann Almeida, London, UK</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Member of the Board of Trustees of 88 Foundation, London, UK / Mitglied des Stiftungsrates von 88 Foundation, London, Grossbritannien</p> <p>Member of the Board of Trustees of Asia House, London, UK / Mitglied des Stiftungsrates von Asia House, London, Grossbritannien</p> <p>Adviser, Chairperson of the HR/Remuneration Committee of Fajr Capital Ltd., Dubai, United Arab Emirates / Beraterin, Vorsitzende des HR/Remuneration Committee von Fajr Capital Ltd., Dubai, Vereinigte Arabische Emirate</p> <p>Advisor, Chairman of the Nomination &amp; Remuneration Committee of Jadwa Investment, Riyadh, Saudi Arabia / Beraterin, Vorsitzende des Nomination &amp; Remuneration Committee von Jadwa Investment, Riyadh, Saudi Arabien</p>
<p>Andreas Amschwand, Kerns</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Chairman of the Board of Directors, EMFA Holding AG, Kerns, Switzerland / Präsident des Verwaltungsrates von EMFA Holding AG, Kerns, Schweiz</p> <p>Chairman of Verein Standortpromotion Kanton Obwalden, Sarnen, Switzerland / Präsident des Vereins Standortpromotion</p>

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

		<p>Kanton Obwalden, Sarnen, Schweiz</p> <p>Chairman of the Board of Directors of Agricola Tirgu Frumos SA, Razboieni, Romania / Präsident des Verwaltungsrates von Agricola Tirgu Frumos SA, Razboieni, Rumänien</p> <p>Administrator of SC AA Agriculture Farm SRL, Razboieni, Romania / Verwalter von SC AA Agriculture Farm SRL, Razboieni, Rumänien</p> <p>Administrator of SC Vicsani Farm SRL, Razboieni, Romania / Verwalter von SC Vicsani Farm SRL, Razboieni, Rumänien</p> <p>Chairman of Alois Amschwand AG, Kerns, Switzerland / Präsident des Verwaltungsrates von Alois Amschwand, Kerns, Schweiz</p>
<p>Dr. Heinrich Baumann, Basel</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Vice President of the Board of Directors of Atlis AG, Biberist, Switzerland / Vizepräsident des Verwaltungsrates der Atlis AG, Biberist, Schweiz</p> <p>Vice President of the Board of Directors of Completo AG, Biberist, Switzerland / Vizepräsident des Verwaltungsrates der Completo AG, Biberist, Schweiz</p> <p>Member of the Board of Directors of KSHB Holding AG (Holding Company of Atlis AG, Biberist, Switzerland), Bern, Switzerland / Mitglied des Verwaltungsrates, KSHB Holding AG (Holdinggesellschaft der Atlis AG, Biberist, Schweiz), Bern, Schweiz</p> <p>Member of the Foundation Board of the International Foundation for Research Paraplegia, Chêne-Bourg, Switzerland / Mitglied des Stiftungsrates der Internationalen Stiftung für Forschung in Paraplegie, Chêne-Bourg, Schweiz</p>
<p>Claire Giraut, Neuilly sur Seine, France</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Chief Financial Officer and Corporate Vice-President Purchasing and Information Systems, bioMérieux, Marcy l'Etoile, France (until March 2018) / Chief Financial Officer und Corporate Vice-President Einkauf und Informationssysteme, bioMérieux, Marcy l'Etoile, Frankreich (bis März 2018)</p> <p>Member of the Board of Directors of DBV Technologies, Montrouge, France / Mitglied des Verwaltungsrates von DBV Technologies, Montrouge, Frankreich</p>
<p>Gareth Penny, London, United Kingdom</p> <p>Bank Julius Bär &amp; Co. AG</p> <p>Bahnhofstrasse 36</p> <p>8001 Zurich</p> <p>Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Non-executive Chairman of the Board of Directors of Edcon Holdings Limited, Johannesburg, South Africa / Nicht-geschäftsführender Präsident des Verwaltungsrates von Edcon Holdings Limited, Johannesburg, Südafrika</p> <p>Non-executive Chairman of the Board of Directors of Pangolin Diamonds Corp., Toronto, Canada / Nicht-geschäftsführender Präsident des Verwaltungsrates von Pangolin Diamonds Corp., Toronto, Kanada</p>

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

		<p>Non-executive Chairman of the Board of Directors of Norilsk Nickel, Moscow, Russia / Nicht-geschäftsführender Präsident des Verwaltungsrates, Norilsk Nickel, Moskau, Russland</p>
<p>Charles G.T. Stonehill, New York, USA</p> <p>Bank Julius Bär &amp; Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Member of the Board of Directors of AXA Financial Inc., New York, USA, inkl. AXA Equitable Life Insurance Company und MONY Life Insurance Company of America, both New York, USA / Mitglied des Verwaltungsrates, AXA Financial Inc., New York, USA (inkl. AXA Equitable Life Insurance Company und MONY Life Insurance Company of America, beide New York, USA)</p> <p>Governor, Harrow School, Harrow on the Hill, London, UK / Direktor, Harrow School, Harrow on the Hill, London, Grossbritannien</p> <p>Member of the Advisory Board of Rubicon Technology Partners L.P., Menlo Park, CA, USA / Mitglied des Verwaltungsrates der Rubicon Technology Partners L.P., Menlo Park, Kalifornien, USA</p> <p>Non-executive Member of the Board of Directors of CommonBond Inc., New York USA / Nicht-geschäftsführendes Mitglied des Verwaltungsrates von CommonBond Inc., New York, USA</p> <p>Member of the Board of Directors of PlayMagnus A/S., Oslo, Norway / Mitglied des Verwaltungsrates der PlayMagnus A/S., Oslo, Norwegen</p> <p>Member of the Foundation Board of Fondation Georg Solti Accademia, Geneva, Switzerland / Mitglied des Stiftungsrates der Fondation Georg Solti Accademia, Genf, Schweiz</p>
<p>Paul Man-Yiu Chow, Hong Kong</p> <p>Bank Julius Bär &amp; Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Independent Non Executive Member of the Board of Directors and Member of the Remuneration Committee of CITIC Limited, Hong Kong / Unabhängiger Verwaltungsrat ohne Exekutivfunktion und Mitglied des Remuneration Committee von CITIC Limited, Hong Kong</p> <p>Independent Non Executive Member of the Board of Directors. Chairman of the Nomination Committee as well as Member of the Audit Committee and the Remuneration Committee of China Mobile Limited, China / Unabhängiger nicht-geschäftsführendes Mitglied des Verwaltungsrates, Vorsitzender des Nominations-Ausschusses sowie Mitglied des Audit Committee und Vergütungs-Ausschusses von China Mobile Limited, China</p>
<p>Dr. Ivo Furrer, Luzern</p> <p>Bank Julius Bär &amp; Co. AG Bahnhofstrasse 36 8001 Zurich</p>	<p>Member of the Board of Directors / Mitglied des Verwaltungsrats</p>	<p>Member of the Board of Directors of responsibility Investments AG, Zurich, Switzerland / Mitglied des Verwaltungsrates, responsibility Investments AG, Zürich,</p>

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

Switzerland		<p>Schweiz</p> <p>Vice Chairman of the Board of Directors Sanitas Health Insurance, Zurich, Switzerland / Vizepräsident des Verwaltungsrates der Sanitas Krankenversicherung, Zürich, Schweiz</p> <p>Member of the Board of Directors of the Financial Market Authority Liechtenstein, Vaduz, Liechtenstein / Mitglied des Aufsichtsrates der Finanzmarktaufsicht Liechtenstein, Vaduz, Liechtenstein</p> <p>Member of the Steering Committee of digitalswitzerland, Zurich, Switzerland / Mitglied des Steering Committee von digitalswitzerland, Zürich, Schweiz</p> <p>Member of the Foundation Board of Stiftung für Kinder in der Schweiz, Hergiswil, Switzerland / Mitglied des Stiftungsrates der Stiftung für Kinder in der Schweiz, Hergiswil, Schweiz</p> <p>Member Swiss Economic Forum, Gwadt, Switzerland / Powerpreneurs Mitglied des Swiss Economic Forum/Powerpreneurs. Gwadt, Schweiz</p> <p>Member of the Board of Directors of Helvetia Insurance, St. Gallen, Switzerland / Mitglied des Verwaltungsrates der Helvetia Versicherung, St. Gallen, Schweiz</p> <p>Member of the Board of Directors of inventix, Chur, Switzerland / Mitglied des Verwaltungsrates der inventix, Chur, Schweiz</p>
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For information: The place of origin (*Bürgerort*) is a Swiss peculiarity. It is the place of citizenship of a Swiss citizen and originally the family register for the person concerned was kept there. The places of origin of the members of the board are entered in the Commercial Register and this is why it is also indicated here. For non-Swiss persons the place of birth is indicated.

**Executive Board of BJB**

As of the date of this Registration Document the members of the Executive Board of BJB of were

Hinweis: Der Bürgerort ist eine Schweizerische Besonderheit. Es bezeichnet den Ort, an welchem ein Schweizer Bürger heimatberechtigt ist und ursprünglich wurde auch das Familienregister der betreffenden Person dort geführt. Der Heimatort der Verwaltungsratsmitglieder ist im Handelsregister eingetragen, weshalb der Heimatort auch in diesem Dokument erwähnt wird. Für Nicht-Schweizer Bürger ist der Geburtsort angegeben.

**Geschäftsleitung der BJB**

Zum Datum dieses Registrierungsformulars gehören folgende Personen der Geschäftsleitung der BJB an:

Name, place of origin / Name, Bürgerort Business address / Geschäftsadresse	Position held / Ausgeübte Position	Significant outside activities / Wesentliche externe Tätigkeiten
Bernhard Hodler Bank Julius Bär & Co. AG Bahnhofstrasse 36	Chief Executive Officer	Chief Executive Officer of Julius Baer Group Ltd. / Chief Executive Officer der Julius Bär Gruppe AG Member of the Board of Directors of Ibf AG,



II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

8001 Zurich Switzerland		Cologne, Germany / Mitglied des Verwaltungsrates der Ifb AG, Köln, Deutschland
Dieter A. Enkelmann Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Chief Financial Officer	Chief Financial Officer of Julius Baer Group Ltd. / Chief Financial Officer der Julius Bär Gruppe AG  Member of the Board of Directors of Cosmo Pharmaceuticals NV, Dublin, Ireland, including Head of the Audit Committee and member of the Nomination Committee / Mitglied des Verwaltungsrates von Cosmo Pharmaceuticals NV, Dublin, Irland, einschliesslich Head Audit Committee und Mitglied des Nomination Committee  Chairman of the Foundation Board of Stiftung für angewandte Krebsforschung, Zurich, Switzerland / Präsident des Stiftungsrates der Stiftung für angewandte Krebsforschung, Zürich, Schweiz
Nic Dreckmann Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Chief Operating Officer	
Philipp Rickenbacher Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Advisory Solutions / Leiter Advisory Solutions	
Rémy A. Bersier Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Emerging Markets / Leiter Emerging Markets	
Gian A. Rossi Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Switzerland / Leiter Schweiz	
Gustavo Raitzin Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Latin America / Leiter Lateinamerika	
Jimmy Lee Kong Eng Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Asia Pacific / Leiter Asien-Pazifik	
Yves Robert-Charrue	Head Europe / Leiter Europa	

II. BANK JULIUS BAER & CO. LTD., II. BANK JULIUS BÄR & CO. AG, ZÜRICH  
ZÜRICH

Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland		
Yves Henri Bonzon Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Investment Management, Chief Investment Officer	
Peter Gerlach Bank Julius Bär & Co. AG Bahnhofstrasse 36 8001 Zurich Switzerland	Head Markets / Leiter Markets	

The members of the Board of Directors and the Executive Board of BJB have additional external positions (as described in the respective column titled "Significant outside activities" in the two preceding tables) which may potentially result in conflicts of interest between their duties towards BJB and their private interests or other duties, insofar as some of the members of the Board of Directors and the Executive Board have additional functions within Julius Baer Group. In particular in the cases where a member of the Board of Directors or the Executive Board (as set out in the two preceding tables) has a function within a company (as set out in the two preceding tables) or will have such position and the shares of such company would be traded by BJB or if such company would have a business relationship with BJB, conflicts of interest may arise. At the date of this Registration Document no further potential conflicts of interest exist between any duties to BJB of the members of its Board of Directors or its Executive Board and their private interest and/or other duties.

**6. Share Capital of BJB and Main Shareholders of Julius Baer Group Ltd.**

BJB is a company limited by shares under Swiss law. As at the date of this Registration Document, the share capital of the Issuer amounts to CHF 575 million. The share capital is now divided into 5,750,000 fully paid-up registered shares, each with a nominal amount of CHF 100. There is no category of shares that carry preferential rights. At the general meeting, each share carries one vote. BJB has neither authorised nor conditional capital. BJB does not hold any of its own

Die Mitglieder des Verwaltungsrats und der Geschäftsleitung der BJB haben zusätzliche externe Positionen inne (wie jeweils in der mit "Wesentliche externe Tätigkeiten" benannten Spalte der beiden vorstehenden Tabellen beschrieben), welche zu Interessenkonflikten zwischen ihren Verpflichtungen gegenüber der BJB und ihren privaten oder externen Verpflichtungen resultieren können, insbesondere insoweit als einige Mitglieder des Verwaltungsrats und der Geschäftsleitung auch andere Funktionen innerhalb der Julius Bär Gruppe ausüben. Insbesondere in den Fällen, in denen ein Mitglied des Verwaltungsrats oder der Geschäftsführung (wie in den beiden vorstehenden Tabellen genannt) eine Funktion innerhalb eines Unternehmens ausübt (wie in den beiden vorstehenden Tabellen genannt) oder ausüben wird und deren Aktien von BJB gehandelt würden oder wenn ein solches Unternehmen mit BJB eine Geschäftsbeziehung unterhalten würde, könnten Interessenkonflikte entstehen. Zum Datum dieses Registrierungsformulars gibt es darüber hinaus keine potenziellen Interessenkonflikte zwischen den Verpflichtungen gegenüber der Emittentin seitens der Mitglieder ihres Verwaltungsrats oder ihrer Geschäftsleistung und deren privaten Interessen und/oder sonstigen Verpflichtungen.

**6. Aktienkapital der BJB und Hauptgesellschafter der Julius Bär Gruppe AG**

BJB ist eine Aktiengesellschaft nach Schweizer Recht. Zum Datum dieses Registrierungsformulars betrug das Aktienkapital CHF 575 Millionen. Das Aktienkapital ist eingeteilt in 5.750.000 vollständig einbezahlte Namenaktien, jede mit einem Nennwert von CHF 100. Es gibt keine Aktien mit Vorzugsrechten. Auf jede Aktie entfällt eine Stimme in der Generalversammlung. Es gibt weder genehmigtes noch bedingtes Kapital. BJB hält keine eigenen Aktien. Es gibt keine Partizipationsscheine

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

shares. There is no capital made up of participation certificates or profit-sharing certificates. As at the date of this Registration Document, there are no debentures outstanding within the meaning of Art. 1156 ff. of the Swiss Code of Obligations.

BJB is a one hundred per cent subsidiary of Julius Baer Group Ltd., the parent and public company of the Julius Baer Group, which is active in the financial services industry operating on a global basis. Julius Baer Group Ltd. evolved from the split-up of business segments of the former Julius Baer Holding Ltd.

As far as BJB is aware, the following persons/groups are as the date of this Registration Document the main shareholders in Julius Baer Group Ltd.:

### Name/Name

MFS Investment Management, Boston, USA  
BlackRock, Inc., New York, USA  
Harris Associates L.P., Chicago, USA  
Wellington Management Company LLP, Boston, USA

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

oder Genussscheine. Zum Datum dieses Registrierungsformulars stehen keine Anleiheobligationen im Sinne von Art. 1156 ff. des Schweizerischen Obligationenrechts aus.

BJB ist eine hundertprozentige Tochter der Julius Bär Gruppe AG, die Konzernobergesellschaft der Julius Bär Gruppe, welche weltweit in der Finanzindustrie tätig ist. Julius Bär Gruppe AG ist aus der Aufteilung der Geschäftsbereiche der ehemaligen Julius Bär Holding AG hervorgegangen.

Soweit BJB bekannt, waren zum Datum dieses Registrierungsformulars die folgenden Personen/Gruppen die wesentlichen Aktionäre der Julius Bär Gruppe AG:

### Portion of the Share Capital/

### Anteil am Aktienkapital

9.9834%  
5.08%  
4.95%  
4.94%

## 7. Audit Committee of BJB

Dr. Heinrich Baumann  
Paul Man-Yiu Chow  
Claire Giraut  
Charles G.T. Stonehill

## 7. Audit Committee der BJB

## 8. Historical Financial Information of BJB

For the financial year ended 31 December 2016, BJB has published consolidated financial information including the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Notes to the consolidated financial statements and the Auditors' report (the "**BJB Consolidated Financial Statements 2016**"). The BJB Consolidated Financial Statements 2016 are included in pages F-1 to F-61 of Appendix 1 to this Registration Document.

## 8. Historische Finanzinformationen der BJB

Für das am 31. Dezember 2016 beendete Geschäftsjahr hat BJB konsolidierte Finanzinformationen einschliesslich konsolidierter Erfolgsrechnung, konsolidierter Gesamtergebnisrechnung, konsolidierter Bilanz, konsolidierter Eigenkapitalentwicklung und konsolidierter Mittelflussrechnung, einen Anhang zu den konsolidierten Finanzinformationen sowie den Bericht der Abschlussprüfer (die "**BJB Konsolidierten Finanzinformationen 2016**") veröffentlicht. BJBs konsolidierte Finanzinformationen 2016 sind auf den Seiten F-1 bis F-61 von Appendix 1 dieses Registrierungsformulars enthalten.

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

For the financial year ended 31 December 2017, BJB has published consolidated financial information including the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Notes to the consolidated financial statements and the Auditors' report (the "**BJB Consolidated Financial Statements 2017**"). The BJB Consolidated Financial Statements 2017 are included in pages G-1 to G-60 of Appendix 2 to this Registration Document.

For the financial year ended 31 December 2017, BJB has published financial information including the Income statement, Balance sheet, Notes to the financial statements and the Auditors' report (the "**BJB Financial Statements 2017**"). The BJB Financial Statements 2017 are included in pages H-1 to H-39 of Appendix 3 to this Registration Document.

The BJB Consolidated Financial Statements 2016 and the BJB Consolidated Financial Statements 2017 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"). The BJB Financial Statements 2017 have been prepared in accordance with the Swiss Code of Obligations, Swiss Banking Law, BJB's articles of association and the guidelines of the Financial Supervisory Authority FINMA Circular 2015/1 "Accounting Banks".

### **Auditing of Historical Financial Information**

The responsible auditors of BJB (See "*II.2. Statutory Auditors of BJB*" above) have audited the historical financial information of BJB for financial years ended 31 December 2016 and 31 December 2017 as mentioned above and have issued an unqualified opinion in each case.

### **9. Interim and other Financial Information**

BJB has not published interim financial information since the date of its last audited financial statements.

### **10. Significant changes in the financial position of BJB and its consolidated subsidiaries**

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Für das am 31. Dezember 2017 beendete Geschäftsjahr hat BJB konsolidierte Finanzinformationen einschliesslich konsolidierter Erfolgsrechnung, konsolidierter Gesamtergebnisrechnung, konsolidierter Bilanz, konsolidierter Eigenkapitalentwicklung und konsolidierter Mittelflussrechnung, einen Anhang zu den konsolidierten Finanzinformationen sowie den Bericht der Abschlussprüfer (die "**BJB Konsolidierten Finanzinformationen 2017**") veröffentlicht. BJB Konsolidierten Finanzinformationen 2017 sind auf den Seiten G-1 bis G-60 von Appendix 2 dieses Registrierungsformulars enthalten.

Für das am 31. Dezember 2017 beendete Geschäftsjahr hat BJB Finanzinformationen einschliesslich Erfolgsrechnung, Bilanz, einen Anhang zu den Finanzinformationen sowie den Bericht der Abschlussprüfer (die "**BJB Finanzinformationen 2017**") veröffentlicht. Die BJB Finanzinformationen 2017 sind auf den Seiten H-1 bis H-39 von Appendix 3 dieses Registrierungsformulars enthalten.

Die BJB Konsolidierten Finanzinformationen 2016 sowie die BJB Konsolidierten Finanzinformationen 2017 sind gemäss den internationalen Rechnungslegungsgrundsätzen IFRS ("**IFRS**") erstellt worden. Die BJB Finanzinformationen 2017 sind gemäss dem Schweizerischen Obligationenrecht, dem Schweizerischen Bankrecht, BJBs Statuten und dem Rundschreiben 2015/1 "Rechnungslegung Banken" der Eidgenössischen Finanzmarktaufsicht FINMA erstellt worden.

### **Prüfung der historischen Finanzinformationen**

Die verantwortlichen Abschlussprüfer (siehe oben "*II.2. Abschlussprüfer/Gesetzliche Revisionsstelle der BJB*") haben die historischen Finanzinformationen der BJB für die am 31. Dezember 2016 und 31. Dezember 2017 geendeten Geschäftsjahre geprüft und jeweils ein uneingeschränktes Prüfungsurteil erteilt.

### **9. Zwischeninformationen und sonstige Finanzinformationen**

BJB hat seit den letzten geprüften Jahresabschlüssen keine Zwischeninformationen veröffentlicht.

### **10. Wesentliche Änderungen in der Finanzlage von BJB und ihren konsolidierten Tochtergesellschaften**

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

There has been no significant change in the financial position of BJB and its consolidated subsidiaries since 31 December 2017.

### 11. Legal and arbitration proceedings relating to BJB

Save as disclosed in the following, during the period covering the last previous 12 months no governmental, legal or arbitration proceedings (including any such proceedings, which are pending or threatened of which BJB is aware) may have, or have had in the recent past significant effects on the financial position or profitability of BJB and/or its consolidated subsidiaries.

BJB is involved in various legal, regulatory and arbitration 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 BJB – depending on the status of related proceedings – is difficult to assess.

BJB 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 BJB and if the amount of such obligation or loss can 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 recognized but the case is disclosed as a contingent liability as of 31 December 2017. These contingent liabilities might have a material effect on BJB.

Described below are certain proceedings that might have a material effect on.

In 2010 and 2011, litigation was commenced against BJB and numerous other financial institutions by the liquidators of the Fairfield funds (the "**Fairfield Liquidators**"), having acted as feeder funds for the

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Die Finanzlage der BJB und ihrer konsolidierten Tochtergesellschaften hat sich seit dem 31. Dezember 2017 nicht wesentlich verändert.

### 11. Gerichts- und Schiedsverfahren betreffend die BJB

Mit Ausnahme der im folgenden offengelegten Verfahren bestanden im Zeitraum der letzten 12 Monate keine staatlichen Interventionen, Gerichts- oder Schiedsgerichtsverfahren (einschliesslich derjenigen Verfahren, die nach Kenntnis von BJB noch anhängig sind oder eingeleitet werden könnten) bzw. wurden solche abgeschlossen, die sich erheblich auf die Finanzlage oder die Rentabilität von BJB und/oder ihrer konsolidierten Tochtergesellschaften auswirken bzw. in jüngster Zeit ausgewirkt haben.

BJB ist im Rahmen des normalen Geschäftsgangs in verschiedene rechtliche, regulatorische und Schiedsgerichtsverfahren involviert. Das gegenwärtige Geschäftsumfeld birgt substantielle rechtliche und regulatorische Risiken, deren Einfluss auf die finanzielle Stärke bzw. Profitabilität der BJB je nach Stand der entsprechenden Verfahren schwierig abzuschätzen ist.

BJB bildet für laufende und drohende Verfahren Rückstellungen, konkret dann, wenn nach Meinung des Managements die Wahrscheinlichkeit, dass solche Verfahren eine finanzielle Verpflichtung oder einen Verlust nach sich ziehen oder dass finanzielle Konflikte ohne Anerkennung einer Rechtspflicht seitens BJB beigelegt werden können, grösser ist als die Wahrscheinlichkeit, dass dies nicht der Fall ist, und wenn der Betrag einer solchen Verpflichtung oder eines Verlusts verlässlich abgeschätzt werden kann.

In vereinzelt Fällen, in welchen der Betrag nicht verlässlich abgeschätzt werden kann, dies z.B. auf Grund des frühen Stadiums der Verfahren, der Komplexität der Verfahren und/oder anderer Faktoren, wird keine Rückstellung gebildet, sondern eine Eventualverbindlichkeit per 31. Dezember 2017 für den Fall ausgewiesen. Diese Eventualverbindlichkeiten können eine erhebliche Auswirkung auf BJB haben.

Nachstehend sind bestimmte Verfahren aufgeführt, die möglicherweise eine erhebliche Auswirkung auf BJB haben können.

In den Jahren 2010 und 2011 wurde gegen BJB sowie zahlreiche weitere Finanzinstitute von den Insolvenzverwaltern der Fairfield-Fonds (die "**Fairfield Liquidatoren**"), letztere agierten als Feeder-Fonds für das

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

Madoff fraudulent investment schemes. In the direct claims against BJB, 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 BJB in 2010 and USD 25 million that relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with BJB 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 BJB, were finally dismissed in favour of BJB with a ruling of the Privy Council, the highest court of appeals for the British Virgin Islands. In addition to the direct claims against BJB, 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 BJB and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between BJB 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 which relates to redemption payments made to clients of Merrill Lynch Bank (Suisse) SA, which merged with BJB in 2013, such claims being subject to the acquisition-related representations 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 litigation are in preliminary procedural stages. BJB 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 BJB 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

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

betrügerische Anlagevehikel von B. Madoff) in New York und auf den Britischen Jungferninseln Klage eingereicht. Mit den direkt gegen BJB gerichteten Klagen verlangen die Fairfield Liquidatoren einen Gesamtbetrag von rund USD 64 Millionen vor Gerichten in New York (inklusive USD 17 Millionen welche mit Bezug auf Rückzahlungen an Kunden der ING Bank (Suisse) SA, welche 2010 mit BJB fusioniert wurde, geltend gemacht werden und inklusive USD 25 Millionen welche mit Bezug auf Rückzahlungen an Kunden der Merrill Lynch Bank (Suisse) SA, welche 2013 mit BJB fusioniert wurde, geltend gemacht werden, und welche Gegenstand von vertragsrechtlichen Gewährspflichten sind). Die Verfahren auf den Britischen Jungferninseln, im Rahmen deren ca. USD 8,5 Millionen von BJB gefordert werden, wurden zugunsten von BJB durch das höchste Gericht der Britischen Jungferninseln, das Privy Council, abgewiesen. Zusätzlich zu den direkten Klagen gegen BJB machen die Fairfield Liquidatoren kombinierte Ansprüche in Höhe von über USD 1,8 Milliarden gegenüber mehr als 80 Beklagten geltend. BJB und die Begünstigten werden nur auf einen Bruchteil dieses Betrags verklagt. Die kombinierten Ansprüche beinhalten die kumulierten Forderungen gegenüber allen Beklagten, sodass eine verlässliche Zuordnung der geltend gemachten Ansprüche zwischen BJB und den übrigen Beklagten nicht möglich ist. Schliesslich macht der Liquidator von Madoffs Effektenhändler-Gesellschaft (der "**Liquidator**") in weiteren Verfahren vor Gerichten in New York einen Anspruch von über USD 83 Millionen geltend (inklusive USD 46 Millionen, welche mit Bezug auf Rückzahlungen an Kunden der Merrill Lynch Bank (Suisse) SA, welche 2013 mit BJB fusioniert wurde, geltend gemacht werden, und welche Gegenstand vertragsrechtlicher Gewährspflichten sind), dies hauptsächlich im Zusammenhang mit denselben Rückzahlungen, welche auch von den Fairfield Liquidatoren eingeklagt worden sind. Die meisten der vorgenannten Verfahren sind erst in einem frühen prozeduralen Stadium. BJB ficht die Klagen auf Grund prozesstechnischer und materieller Gründe an und hat weitere Massnahmen zur Verteidigung und zum Schutz ihrer Interessen ergriffen.

Das vom Trustee initiierte Verfahren wurde vom Konkursgericht in New York im November 2016 aufgrund extraterritorialen Grundätze abgewiesen. Der Trustee hat dieses Urteil angefochten.

In einem Grundsatzentscheid betreffend sogenannte Retrozessionen hat das Schweizerische Bundesgericht im Jahre 2012 entschieden, dass durch den Zufluss von Bestandespflegekommissionen im Zusammenhang mit der Ausübung eines Vermögensverwaltungsmandats bei einer Bank ein Interessenskonflikt entstehen kann. Das Gericht kam zu dem Schluss, dass wegen des Erhalts von Bestandespflegekommissionen im Zusammenhang mit einem solchen Mandat eine Bank versucht sein

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

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. BJB has assessed this decision by the Swiss Federal Supreme Court as well as further relevant court decisions in this context and the mandate structures to which these 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.

BJB is confronted with a claim by the liquidator of a foreign corporation arguing that BJB 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 BJB in the amount of CHF 422 million (plus accrued interest from 2009). On 8 February 2017, BJB has been served with a claim from said corporation in liquidation in the amount of EUR 306 million. The court proceeding against BJB 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 BJB. 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 BJB. 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. BJB, 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 BJB., claiming

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

könnte, nicht im besten Interesse des Kunden zu handeln. Entsprechend habe eine Bank gestützt auf schweizerisches Auftragsrecht die im Zusammenhang mit der Mandatsausführung von Dritten erhaltenen Bestandespflegekommissionen gegenüber dem Kunden nicht nur auszuweisen, sondern auch weiterzuleiten, es sei denn der Kunde habe rechtmässig auf die Bestandespflegekommissionen verzichtet. BJB hat den Gerichtsentscheid sowie weitere einschlägige Gerichtsentscheide und die Mandatsstrukturen, auf die diese Gerichtsentscheide Anwendung finden könnten, analysiert. Sie hat sodann die entsprechenden Dokumentationen inklusive die in den letzten Jahren eingeholten Verzichtserklärungen und gemachten Bandbreitenangaben analysiert und geeignete Massnahmen implementiert, um der Angelegenheit in geeigneter Weise entgegenzutreten.

Der Liquidator einer ausländischen Gesellschaft macht geltend, BJB habe nicht verhindert, dass zwei Kunden Vermögenswerte dieser Gesellschaft veruntreuten. In diesem Zusammenhang stellte der Liquidator BJB Klageentwürfe über verschiedene Beträge für ein allfälliges Schweizer Verfahren zu und betrieb BJB über den Betrag von CHF 422 Millionen (plus seit dem Jahr 2009 aufgelaufene Zinsen). Am 8. Februar 2017 klagte die vorgenannte Gesellschaft in Liquidation den Betrag von EUR 306 Millionen ein. Das Verfahren gegen BJB wurde am Sitz der Klägerin in der Europäischen Union eingeleitet, wobei das erstinstanzliche Gericht seine Zuständigkeit ablehnte. Die Klägerin hat dieses Urteil angefochten.

Am 31. März 2014 eröffnete die Schweizerische Wettbewerbskommission („WEKO“) eine Untersuchung wegen möglicher Absprachen im Devisenhandel gegen verschiedene Banken, darunter auch BJB. Gemäss ihrer Medienmitteilung vom 28. September 2015 eröffnete die WEKO zudem eine Untersuchung wegen möglicher Absprachen im Edelmetallhandel. Die Untersuchungen richten sich gegen verschiedene in- und ausländische Finanzinstitute, die im Devisen- und Edelmetallhandel tätig sind, darunter auch BJB. Die Untersuchungen sind Teil von internationalen Abklärungen und haben den Zweck, abzuklären, ob es im Devisen- und Edelmetallhandel zu unerlaubten Absprachen unter den Marktteilnehmern oder sonstigen Verletzungen von Marktverhaltensregeln gekommen ist. BJB unterstützt weiterhin als im primär auf vermögende Privatkunden ausgerichteten Devisen- und Edelmetallhandel tätige Bank die Untersuchungen und Abklärungen der WEKO und anderer Behörden im In- und Ausland.

Die Bundesanstalt für vereinigungsbedingte Sonderaufgaben („BvS“) erhob im September 2014 in Zürich Klage gegen BJB in der Höhe von rund CHF 97

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

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 BJB 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 BJB vis-à-vis the seller under the 2005 transaction agreement with regard to representations and warranties granted in respect of the acquired entities. The Zurich Supreme Court upheld the first-instance judgment in favour of BJB on 18 April 2018 and dismissed the claim. This second-instance judgment is not yet final.

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 BJB 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 BJB with the competent French court as a precautionary measure representing the maximal fine possible accordingly having been reimbursed to BJB, has been deposited again, as in July 2017, a new procedure with respect to the same matter has been initiated against BJB. BJB is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, BJB was served with 62 claims in Geneva totaling 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 BJB in the context of the late external asset manager allegedly having used his personal account and company account with BJB 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, BJB was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. BJB is contesting the claim and has taken appropriate measures to defend its interests.

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Millionen plus seit dem Jahr 1994 aufgelaufene Zinsen. Die BvS macht geltend, die für die Verwaltung der Vermögen der ehemaligen Deutschen Demokratischen Republik („DDR“) zuständige deutsche Behörde zu sein. Grundlage der Klage sind Behauptungen der BvS, die ehemalige Bank Cantrade AG (welche BJB durch die Übernahme der Bank Ehinger & Armand von Ernst AG von der UBS AG im Jahr 2005 ebenfalls akquiriert hatte) habe zwischen 1990 und 1992 nichtautorisierte Geldbezüge vom Konto einer ehemaligen DDR-Aussenhandelsgesellschaft zugelassen. Das Bezirksgericht Zürich hat die Klage am 9. Dezember 2016 vollumfänglich abgewiesen. Das Obergericht Zürich bestätigte am 18. April 2018 das erstinstanzliche Urteil zugunsten von BJB und wies die Klage ab. Dieses zweitinstanzliche Urteil ist noch nicht rechtskräftig. BJB hat die Forderungen der BvS unter der Transaktionsvereinbarung aus dem Jahr 2005 im Rahmen der mit Bezug auf die erworbenen Gesellschaften abgegebenen Zusicherungen gegenüber der damaligen Verkäuferin angemeldet.

In Frankreich wurde im Zusammenhang mit Untersuchungen gegen einen ehemaligen Kunden wegen möglicher Beteiligung an einem Abgabebetrag im Zusammenhang mit dem Handel von Umweltzertifikaten im Juni 2014 ein formelles Verfahren gegen BJB wegen Verdachts auf mangelnde Sorgfalt bei Finanzgeschäften eröffnet und aus formellen Gründen durch einen Gerichtsentscheid im März 2017 abgewiesen. Die von BJB im Oktober 2014 beim zuständigen Gericht hinterlegte Kautions im Betrag von EUR 3,75 Millionen als vorsorgliche Massnahme, im Umfang der höchstmöglichen Busse, wurde an BJB zurückbezahlt, musste jedoch wieder hinterlegt werden, als im Juli 2017 ein neues Verfahren in gleicher Sache gegen BJB eingeleitet wurde. BJB kooperiert mit den französischen Untersuchungsbehörden zwecks Aufklärung des Sachverhalts und Wahrnehmung ihrer Interessen im Rahmen der gesetzlichen Möglichkeiten.

Der BJB wurde im April 2015 in Genf eine Klage von 62 Klägern zugestellt, welche Forderungen in der Höhe von insgesamt rund CHF 20 Millionen plus Zinsen umfasst. Die Kläger, welche Teil einer insgesamt CHF 40 Millionen Schaden geltend machenden Gruppe von ehemaligen Kunden eines externen Vermögensverwalters sind, machen geltend, BJB habe ihre Sorgfaltspflichten im Zusammenhang mit den Aktivitäten des mittlerweile verstorbenen externen Vermögensverwalters verletzt und dieser habe sein privates und geschäftliches Konto bei der Bank für Durchlauftransaktionen und die Bündelung von Kundenvermögen benutzt. Am 16. Oktober 2015 formalisierten 51 der 62 Kläger die Klage und machen nun eine Forderung in der Höhe von insgesamt CHF 11.7 Millionen plus Zinsen geltend. Im Oktober 2016 wurde BJB eine weitere Klage von zusätzlichen 15 Klägern in der Höhe von insgesamt CHF 4.5 Millionen plus Zinsen



## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

BJB is confronted with a claim by a former client arguing that BJB initiated transactions without appropriate authorizations and that BJB 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 BJB in the total amount of approximately CHF 91.3 million (plus accrued interest). In December 2017, BJB has received again a payment order in various currencies in the total amount of approximately CHF 153 million (plus accrued interest). BJB is contesting the claim whilst taking appropriate measures to defend its interests.

In November 2014, BJB 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 BJB, 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. BJB is contesting the claim whilst taking appropriate measures to defend its interests. In addition, such claims are subject to acquisition-related representations and warranties.

BJB 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

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

zugestellt. BJB bestreitet diese Forderungen und hat Massnahmen zum Schutz ihrer Interessen getroffen.

Ein ehemaliger Kunde der BJB macht geltend, dass die BJB ohne gültige Aufträge Transaktionen vorgenommen und ihre Sorgfalts-, Treue- sowie Informations- und Abmahnungspflichten verletzt habe. In diesem Zusammenhang machte der ehemalige Kunde im April 2015 eine Forderung in der Höhe von USD 70 Millionen (plus Zinsen) und BRL 24 Millionen geltend. Im Januar 2017 reichte er diesbezüglich ein Betreibungsbegehren in verschiedenen Währungen gegen BJB im Gesamtbetrag von ca. CHF 91,3 Millionen (zuzüglich aufgelaufenen Zinsen) ein. Im Dezember 2017 wurde BJB erneut betrieben durch Betreibungsbegehren in verschiedenen Währungen im Gesamtbetrag von ca. CHF 153 Millionen (zuzüglich aufgelaufenen Zinsen). BJB bestreitet die Forderung und hat angemessene Massnahmen zum Schutz ihrer Interessen getroffen.

Ein Investmentfonds, in eigenem Namen und im Auftrag dreier anderer betroffener Fonds, alles ehemalige Kunden der von der BJB übernommenen Bank of China (Suisse) S.A., hat die BJB im November 2014 in Genf in der Höhe von insgesamt rund USD 29 Millionen (plus Zinsen) eingeklagt. Zusätzlich reichte der Kläger im Oktober 2015 eine Klageänderung ein, mittels welcher zusätzlich rund USD 39 Millionen gefordert wurden. Im März 2017 hat der Kläger den Gesamtbetrag der Klage auf USD 44,6 Millionen reduziert. Der Kläger macht geltend, dass die Bank of China (Suisse) S.A. nicht nur als Depotbank, sondern auch als besicherter Kreditgeber und Fondsmanager gehandelt und übermässige Hebelwirkung (Leverage) toleriert habe. Weiter behauptet der Kläger, dass der Fonds auf Grund der Liquidation des beinahe ganzen Portfolios im Mai 2010 bedeutende Verluste erlitten habe und diese Liquidation durch die Bank of China (Suisse) S.A. ohne Zustimmung der Direktoren des Fonds unzeitgemäss, ordnungswidrig und in aussergewöhnlich unüblichen Marktverhältnissen erfolgt sei. BJB bestreitet die Forderung und hat Massnahmen zum Schutz ihrer Interessen getroffen. Zusätzlich sind diese Forderungen Gegenstand von akquisitionsbezogenen, vertragsrechtlichen Zusicherungen.

BJB hat verschiedene Anfragen von Behörden erhalten, welche die Korruptions- und Bestechungsvorwürfe um die Fédération Internationale de Football Association (FIFA) in der Schweiz und den USA untersuchen. Die Anfragen beziehen sich insbesondere auch auf Personen, die im sogenannten "FIFA Indictment" vom 20. Mai 2015 (Indictment filed in United States v. Webb [E.D.N.Y. 15 CR 0252 (RJD)(RML)]) und in der entsprechenden ergänzten Anklage (superseding indictment) vom 25. November 2015 genannt sind. Die Behörden in der Schweiz und im Ausland untersuchen neben den

## II. BANK JULIUS BAER & CO. LTD., ZÜRICH

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. BJB is supporting the inquiries and cooperating with the authorities in the investigations on this matter.

### 12. Material Contracts

There are no material contracts that are not entered into in the ordinary course of BJB's business which could result in BJB (including its affiliates) being under an obligation or entitlement that is material to BJB's ability to meet its obligations to security holders in respect of the securities being issued.

## II. BANK JULIUS BÄR & CO. AG, ZÜRICH

Bestechungs- und Korruptionsvorwürfen gegen Personen der FIFA und Dritte auch, ob Finanzinstitute im Zusammenhang mit verdächtigen und potenziell widerrechtlichen Transaktionen die anwendbaren Sorgfaltsstandards insbesondere mit Bezug auf die Geldwäschereivorschriften eingehalten haben. BJB unterstützt die Untersuchungen der Behörden und kooperiert mit diesen im Rahmen der entsprechenden Verfahren.

### 12. Wesentliche Verträge

Es gibt keine wesentlichen Verträge, die nicht im Rahmen der normalen Geschäftstätigkeit abgeschlossen wurden und die dazu führen könnten, dass BJB (einschliesslich ihrer Tochtergesellschaften) eine Verpflichtung oder ein Recht erlangt, die bzw. das für die Fähigkeit der BJB, ihren Verpflichtungen gegenüber den Wertpapierinhabern in Bezug auf die ausgegebenen Wertpapiere nachzukommen, von wesentlicher Bedeutung ist.

### III. GENERAL INFORMATION

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#### 1. Responsibility statement

Bank Julius Baer & Co. Ltd., Bahnhofstrasse 36, 8001 Zurich, Switzerland (acting itself or acting through its Guernsey Branch, Lefebvre Court, Lefebvre Street, P.O. Box 87, St. Peter Port, GBG-Guernsey GY1 4 BS), as Issuer accepts responsibility for the information provided in this Registration Document pursuant to Section 5 Paragraph 4 WpPG.

The Issuer furthermore declares that the information contained in this Registration Document is, to its knowledge, in accordance with the facts and that no material circumstances have been omitted.

#### 2. Publication and validity of the Registration Document

This Registration Document shall be valid for twelve months after its approval; this Registration Document solely represents the status of the information contained in it at the time of its approval.

BJB may choose to produce a new registration document to replace this Registration Document whenever significant new information regarding the Issuer is available.

**This Registration Document does not constitute an offer to sell or the solicitation of an offer to buy any security or to enter into any agreement and BJB is not soliciting any action based upon it. Nobody has been authorised by BJB to release more information or confirmations than provided in this Registration Document. If those information and confirmations are still given, investors should not rely on them as if they were authorised by BJB.**

### III ALLGEMEINE INFORMATIONEN

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#### 1. Verantwortlichkeitserklärung

Die Bank Julius Bär & Co. AG, Bahnhofstrasse 36, 8001 Zürich, Schweiz (selbst handelnd oder durch ihre Zweigniederlassung Guernsey, Lefebvre Court, Lefebvre Street, P.O. Box 87, St. Peter Port, GBG-Guernsey GY1 4 BS), als Emittentin übernimmt die Verantwortung gemäss § 5 Absatz 4 WpPG für die in diesem Registrierungsformular gemachten Angaben.

Die Emittentin erklärt ferner, dass ihres Wissens die Angaben in diesem Registrierungsformular richtig und keine wesentlichen Umstände ausgelassen sind.

#### 2. Veröffentlichung und Gültigkeit des Registrierungsformulars

Dieses Registrierungsformular ist gültig für einen Zeitraum von 12 Monaten nach seiner Billigung. Das Registrierungsformular gibt lediglich den Stand der in ihm enthaltenen Informationen zum Zeitpunkt seiner Billigung wieder.

BJB kann zu jeder Zeit, zu der massgebliche neue Informationen über die Emittentin verfügbar sind, ein neues Registrierungsformular erstellen, um dieses Registrierungsformular zu ersetzen.

**Das Registrierungsformular beinhaltet weder ein Angebot zum Verkauf noch eine Aufforderung zur Abgabe eines Angebots, Wertpapiere zu kaufen, oder einen Vertrag abzuschliessen und BJB fordert zu keiner darauf basierenden Handlung auf. Keine andere Person ist von BJB autorisiert worden, über dieses Registrierungsformular hinausgehende Informationen oder Bestätigungen zu veröffentlichen. Sollten solche Informationen oder Bestätigungen dennoch erteilt werden, sollten Investoren auf diese nicht so vertrauen, als wären sie von BJB genehmigt.**

### III. GENERAL INFORMATION

#### 3. Documents Available for Inspection

Copies of the following documents can be ordered free of charge from or will be available, during usual business hours, for inspection at Bank Julius Baer & Co.Ltd., Bahnhofstrasse 36, 8001 Zurich, Switzerland:

- Articles of Association of Bank Julius Baer & Co. Ltd.;
- BJB Consolidated Financial Statements 2016;
- BJB Consolidated Financial Statements 2017; and
- BJB Financial Statements 2017.

On <https://www.juliusbaer.com/group/en/financial-information/financial-reporting/>, the annual reports of Julius Baer Group Ltd. for the past two financial years may also be accessed electronically.

### III ALLGEMEINE INFORMATIONEN

#### 3. Einsehbare Dokumente

Kopien der folgenden Dokumente können zu den üblichen Geschäftszeiten bei Bank Julius Bär & Co. AG, Bahnhofstrasse 36, 8001 Zürich, Schweiz eingesehen oder kostenfrei angefordert werden:

- Statuten der Bank Julius Bär & Co. AG,
- BJB Konsolidierte Finanzinformationen 2016,
- BJB Konsolidierte Finanzinformationen 2017, und
- BJB Finanzinformationen 2017.

Auf <https://www.juliusbaer.com/group/en/financial-information/financial-reporting/> besteht Zugang zu den Geschäftsberichten der Julius Bär Gruppe AG für die beiden letzten Geschäftsjahre auch in elektronischer Form.

**Appendix 1:**  
**BJB Consolidated Financial Statements**  
**2016**

Income Statement	F-2
Statement of Comprehensive Income	F-3
Balance Sheet	F-4
Statement of Changes in Equity	F-6
Statement of Cash Flows	F-8
Notes	F-10
Auditor's Report	F-58

**Appendix 1:**  
**BJB Konsolidierte Finanzinformationen**  
**2016**

Gewinn- und Verlustrechnung	F-2
Gesamtergebnisrechnung	F-3
Bilanz	F-4
Eigenkapitalveränderungsrechnung	F-6
Kapitalflussrechnung	F-8
Anhang	F-10
Bestätigungsvermerk der Abschlussprüfer	F-58

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2016 CHF 1,000	2015 CHF 1,000	Change %
Interest and dividend income		<b>989,087</b>	812,100	21.8
Interest expense		<b>131,020</b>	99,513	31.7
Net interest and dividend income	1	<b>858,067</b>	712,587	20.4
Commission and fee income		<b>1,506,194</b>	1,550,014	-2.8
Commission expense		<b>390,443</b>	325,474	20.0
Net commission and fee income	2	<b>1,115,751</b>	1,224,540	-8.9
Net trading income	3	<b>316,890</b>	424,012	-25.3
Other ordinary results	4	<b>37,429</b>	9,186	307.5
<b>Operating income</b>		<b>2,328,137</b>	2,370,325	-1.8
Personnel expenses	5	<b>1,008,139</b>	970,974	3.8
General expenses	6	<b>542,807</b>	1,135,098	-52.2
Depreciation of property and equipment	12	<b>31,048</b>	28,908	7.4
Amortisation of customer relationships	12	<b>47,351</b>	114,867	-58.8
Amortisation and impairment of other intangible assets	12	<b>32,691</b>	53,707	-39.1
<b>Operating expenses</b>		<b>1,662,036</b>	2,303,554	-27.8
<b>Profit before taxes</b>		<b>666,101</b>	66,771	897.6
Income taxes	7	<b>115,393</b>	6,899	1,572.6
<b>Net profit attributable to the shareholder of Bank Julius Baer &amp; Co. Ltd.</b>		<b>550,708</b>	59,872	819.8

	Note	2016 CHF	2015 CHF	Change %
<b>Share information</b>				
Basic earnings per share (EPS)	8	<b>95.78</b>	10.41	819.8
Diluted earnings per share (EPS)	8	<b>95.78</b>	10.41	819.8
Dividend proposal 2016 and dividend 2015		<b>38.26</b>	17.39	120.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>2016</b>	2015
	<i>CHF 1,000</i>	<i>CHF 1,000</i>
<b>Net profit recognised in the income statement</b>	<b>550,708</b>	59,872
<hr/>		
Other comprehensive income (net of taxes):		
<b>Items that may be reclassified to the income statement</b>		
Net unrealised gains/(losses) on financial investments available-for-sale	<b>19,751</b>	-84,247
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	<b>3,920</b>	671
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement of defined benefit obligation	<b>27,777</b>	-95,958
<b>Other comprehensive income</b>	<b>51,448</b>	-179,534
<hr/>		
<b>Total comprehensive income</b>	<b>602,156</b>	-119,662
<hr/>		
Attributable to:		
Shareholder of Bank Julius Baer & Co. Ltd.	<b>602,156</b>	-119,662

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
<b>Assets</b>			
Cash		<b>11,805,590</b>	8,255,991
Due from banks	9	<b>13,768,304</b>	8,603,807
Loans	9	<b>34,806,910</b>	33,338,752
Trading assets	10	<b>7,756,942</b>	9,052,934
Derivative financial instruments	22	<b>2,644,082</b>	2,166,759
Financial assets designated at fair value	23	<b>252,364</b>	196,976
Financial investments available-for-sale	11	<b>17,854,772</b>	15,897,680
Property and equipment	12	<b>315,255</b>	318,591
Goodwill and other intangible assets	12	<b>2,065,301</b>	2,007,779
Accrued income and prepaid expenses		<b>248,296</b>	314,095
Deferred tax assets	16	<b>14,638</b>	13,571
Other assets		<b>255,505</b>	555,779
<b>Total assets</b>		<b>91,787,959</b>	80,722,714



FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD. 2016  
**CONSOLIDATED FINANCIAL STATEMENTS**

	Note	<b>31.12.2016</b> CHF 1,000	31.12.2015 CHF 1,000
<b>Liabilities and equity</b>			
Due to banks		<b>14,248,864</b>	7,391,151
Due to customers		<b>61,264,955</b>	60,772,615
Trading liabilities	10	<b>158,953</b>	190,799
Derivative financial instruments	22	<b>2,241,182</b>	2,369,769
Financial liabilities designated at fair value	15	<b>8,444,443</b>	4,263,085
Accrued expenses and deferred income		<b>468,391</b>	440,711
Current tax liabilities		<b>104,388</b>	52,489
Deferred tax liabilities	16	<b>57,322</b>	29,109
Provisions	17	<b>9,830</b>	573,326
Other liabilities		<b>222,068</b>	424,253
<b>Total liabilities</b>		<b>87,220,396</b>	76,507,307
Share capital		<b>575,000</b>	575,000
Capital reserves		<b>1,911,885</b>	1,911,885
Retained earnings		<b>2,213,326</b>	1,912,618
Other components of equity		<b>-132,648</b>	-184,096
Total equity attributable to shareholder of Bank Julius Baer & Co. Ltd.		<b>4,567,563</b>	4,215,407
<b>Total liabilities and equity</b>		<b>91,787,959</b>	80,722,714

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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At 1 January 2015

Net profit

Unrealised gains/(losses)

Realised (gains)/losses reclassified to the income statement

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Total other comprehensive income

Total comprehensive income

Bank Julius Baer & Co. Ltd. dividend payment

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

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At 31 December 2015

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### At 1 January 2016

Net profit

Unrealised gains/(losses)

Realised (gains)/losses reclassified to  
the income statement

Changes

Total other comprehensive income

Total comprehensive income

Bank Julius Baer & Co. Ltd. dividend payment

Bank Julius Baer & Co. Ltd. extraordinary dividend payment

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

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### At 31 December 2016

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD. 2016  
**CONSOLIDATED FINANCIAL STATEMENTS**

Share capital CHF 1,000	Capital reserves CHF 1,000	Retained earnings CHF 1,000	Other components of equity		Total equity attributable to shareholder of Bank Julius Baer & Co. Ltd. CHF 1,000
			Financial investments available- for-sale, net of taxes CHF 1,000	Remeasurement of defined benefit obligation CHF 1,000	
575,000	1,911,885	2,002,746	109,848	-114,410	4,485,069
-	-	59,872	-	-	59,872
-	-	-	-84,247	-	-84,247
-	-	-	671	-	671
-	-	-	-	-95,958	-95,958
-	-	-	-83,576	-95,958	-179,534
-	-	59,872	-83,576	-95,958	-119,662
-	-	-150,000	-	-	-150,000
-	-	42,667	-	-	42,667
-	-	-42,667	-	-	-42,667
575,000	1,911,885	1,912,618	26,272	-210,368	4,215,407
<b>575,000</b>	<b>1,911,885</b>	<b>1,912,618</b>	<b>26,272</b>	<b>-210,368</b>	<b>4,215,407</b>
-	-	<b>550,708</b>	-	-	<b>550,708</b>
-	-	-	<b>19,751</b>	-	<b>19,751</b>
-	-	-	<b>3,920</b>	-	<b>3,920</b>
-	-	-	-	<b>27,777</b>	<b>27,777</b>
-	-	-	<b>23,671</b>	<b>27,777</b>	<b>51,448</b>
-	-	<b>550,708</b>	<b>23,671</b>	<b>27,777</b>	<b>602,156</b>
-	-	<b>-100,000</b>	-	-	<b>-100,000</b>
-	-	<b>-150,000</b>	-	-	<b>-150,000</b>
-	-	<b>48,268</b>	-	-	<b>48,268</b>
-	-	<b>-48,268</b>	-	-	<b>-48,268</b>
575,000	1,911,885	2,213,326	49,943	-182,591	4,567,563

## CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>2016</b> CHF 1,000	2015 CHF 1,000
Net profit	<b>550,708</b>	59,872
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	<b>31,048</b>	28,908
- Amortisation and impairment of intangible assets	<b>80,042</b>	168,574
- Allowance for credit losses	<b>11,771</b>	34,837
- Deferred tax expense/(benefit)	<b>9,679</b>	-51,950
- Net loss/(gain) from investing activities	<b>80,124</b>	92,306
- Other non-cash income and expenses	<b>48,268</b>	42,667
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	<b>6,801,769</b>	-907,846
- Trading portfolios and derivative financial instruments	<b>602,848</b>	-1,396,681
- Net loans/due to customers	<b>-988,369</b>	-224,660
- Accrued income, prepaid expenses and other assets	<b>317,805</b>	-458,692
- Accrued expenses, deferred income, other liabilities and provisions	<b>-699,038</b>	420,081
Adjustment for income tax expenses	<b>105,714</b>	58,849
Income taxes paid	<b>-53,722</b>	-117,549
<b>Cash flow from operating activities</b>	<b>6,898,647</b>	-2,251,284
Purchase of property and equipment and intangible assets	<b>-165,276</b>	-98,036
Net (investment in)/divestment of financial investments available-for-sale	<b>-251,317</b>	-2,248,484
Acquisition of subsidiaries, net of cash and cash equivalents acquired	<b>-</b>	-21,694
<b>Cash flow from investing activities</b>	<b>-416,593</b>	-2,368,214
Dividend payments	<b>-250,000</b>	-150,000
Issuance and repayment of financial liabilities designated at fair value	<b>4,181,358</b>	-136,211
<b>Cash flow from financing activities</b>	<b>3,931,358</b>	-286,211
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>10,413,412</b>	-4,905,709
Cash and cash equivalents at the beginning of the year	<b>17,623,201</b>	22,267,408
Cash flow from operating activities	<b>6,898,647</b>	-2,251,284
Cash flow from investing activities	<b>-416,593</b>	-2,368,214
Cash flow from financing activities	<b>3,931,358</b>	-286,211
Effects of exchange rate changes on cash and cash equivalents	<b>-5,259</b>	261,502
<b>Cash and cash equivalents at the end of the year</b>	<b>28,031,354</b>	17,623,201

**Cash and cash equivalents are structured as follows:**

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
Cash	<b>11,805,590</b>	8,255,991
Money market instruments	<b>3,654,112</b>	1,903,239
Due from banks (original maturity of less than three months)	<b>12,571,652</b>	7,463,971
<b>Total</b>	<b>28,031,354</b>	17,623,201

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
<b>Additional information</b>		
Interest received	<b>839,681</b>	576,016
Interest paid	<b>-128,272</b>	-88,395
Dividends on equities received	<b>203,340</b>	151,715

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	2016 CHF 1,000	2015 CHF 1,000	Change %
Interest income on amounts due from banks	<b>41,581</b>	43,167	-3.7
Interest income on loans	<b>466,832</b>	406,410	14.9
Interest income on financial investments available-for-sale	<b>247,550</b>	186,979	32.4
<b>Total interest income using the effective interest method</b>	<b>755,963</b>	636,556	18.8
Dividend income on financial investments available-for-sale	<b>7,283</b>	10,261	-29.0
Interest income on trading portfolios	<b>29,784</b>	23,830	25.0
Dividend income on trading portfolios	<b>196,057</b>	141,453	38.6
<b>Total interest and dividend income</b>	<b>989,087</b>	812,100	21.8
Interest expense on amounts due to banks	<b>11,190</b>	7,416	50.9
Interest expense on amounts due to customers	<b>83,731</b>	65,279	28.3
Interest expense on financial assets <sup>1</sup>	<b>36,099</b>	26,818	34.6
<b>Total interest expense using the effective interest method</b>	<b>131,020</b>	99,513	31.7
<b>Total</b>	<b>858,067</b>	712,587	20.4

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	2016 CHF 1,000	2015 CHF 1,000	Change %
Advisory and management commissions	<b>730,944</b>	723,412	1.0
Investment fund fees	<b>169,458</b>	218,105	-22.3
Fiduciary commissions	<b>7,836</b>	6,372	23.0
<b>Total commission and fee income from asset management</b>	<b>908,238</b>	947,889	-4.2
Brokerage commissions and income from securities underwriting	<b>479,832</b>	504,463	-4.9
Commission income credit-related activities	<b>7,048</b>	5,924	19.0
Commission and fee income on other services	<b>111,076</b>	91,738	21.1
<b>Total commission and fee income</b>	<b>1,506,194</b>	1,550,014	-2.8
Commission expense	<b>390,443</b>	325,474	20.0
<b>Total</b>	<b>1,115,751</b>	1,224,540	-8.9

### 3 NET TRADING INCOME

	<b>2016</b> <i>CHF 1,000</i>	2015 <i>CHF 1,000</i>	Change %
Debt instruments	<b>50,483</b>	30,342	66.4
Equity instruments	<b>-169,424</b>	-108,487	-56.2
Foreign exchange	<b>435,831</b>	502,157	-13.2
<b>Total</b>	<b>316,890</b>	424,012	-25.3

### 4 OTHER ORDINARY RESULTS

	<b>2016</b> <i>CHF 1,000</i>	2015 <i>CHF 1,000</i>	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	<b>9,528</b>	646	1,374.9
Impairment on financial investments available-for-sale	<b>-1,866</b>	-7,000	73.3
Real estate income	<b>5,872</b>	5,706	2.9
Other ordinary income	<b>24,374</b>	9,834	147.9
Other ordinary expenses	<b>479</b>	-	-
<b>Total</b>	<b>37,429</b>	9,186	307.5

### 5 PERSONNEL EXPENSES

	<b>2016</b> <i>CHF 1,000</i>	2015 <i>CHF 1,000</i>	Change %
Salaries and bonuses	<b>852,508</b>	775,542	9.9
Contributions to staff pension plans (defined benefits)	<b>11,174<sup>1</sup></b>	66,784	-83.3
Contributions to staff pension plans (defined contributions)	<b>17,883</b>	17,265	3.6
Other social security contributions	<b>64,048</b>	60,040	6.7
Share-based payments	<b>48,268</b>	42,667	13.1
Other personnel expenses	<b>14,258</b>	21,224	-32.8
Reimbursement of personnel expenses	-	-12,548 <sup>2</sup>	100.0
<b>Total</b>	<b>1,008,139</b>	970,974	3.8

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 61.5 million, see Note 20.

<sup>2</sup> Represents a reimbursement from Bank of America in the amount of CHF 12.5 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management business (IWM).

## 6 GENERAL EXPENSES

	2016 CHF 1,000	2015 CHF 1,000	Change %
Occupancy expense	<b>64,643</b>	62,770	3.0
IT and other equipment expense	<b>60,868</b>	56,965	6.9
Information, communication and advertising expense	<b>146,669</b>	141,409	3.7
Service expense, fees and taxes	<b>252,967</b>	301,668	-16.1
Valuation allowances, provisions and losses	<b>16,427</b>	571,028 <sup>1</sup>	-97.1
Other general expenses	<b>1,233</b>	1,258	-2.0
<b>Total</b>	<b>542,807</b>	1,135,098	-52.2

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the agreement in principle with US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy U.S. cross-border business (see Note 17).

## 7 INCOME TAXES

	2016 CHF 1,000	2015 CHF 1,000	Change %
Income tax on profit before taxes (expected tax expense)	<b>146,542</b>	14,690	897.6
Effect of tax rate differences in foreign jurisdictions	<b>-11,970</b>	-19,811	-
Effect of domestic tax rate differences	<b>-3,738</b>	921	-
Income subject to a reduced tax rate	<b>-23,033</b>	-23,350	-
Net effect of utilisation of losses	<b>2,295</b>	-1,301	-
Adjustments related to prior years	<b>-2,227</b>	-10,544	-
Non-deductible expenses	<b>7,321</b>	47,437	-
Other	<b>203</b>	-1,143	-
<b>Actual income tax expense</b>	<b>115,393</b>	6,899	-

The tax rate of Switzerland of 22% (2015: 22%) was applied as the basis for the above expected tax expenses.

Unrecognised accumulated loss carryforwards in the amount of CHF 59.7 million (2015: CHF 51.2 million) exist in the Bank that do not expire.

	2016 CHF 1,000	2015 CHF 1,000	Change %
Domestic income taxes	<b>106,088</b>	-5,260	-
Foreign income taxes	<b>9,305</b>	12,159	-23.5
<b>Total</b>	<b>115,393</b>	6,899	-
Current income taxes	<b>105,714</b>	58,849	79.6
Deferred income taxes	<b>9,679</b>	-51,950	-
<b>Total</b>	<b>115,393</b>	6,899	-



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

	Before-tax amount <i>CHF 1,000</i>	Tax (expense)/ benefit <i>CHF 1,000</i>	<b>2016</b> Net of tax amount <i>CHF 1,000</i>
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	29,042	-9,291	19,751
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	4,261	-341	3,920
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	35,612	-7,835	27,777
<b>Other comprehensive income</b>	<b>68,915</b>	<b>-17,467</b>	<b>51,448</b>
	Before-tax amount <i>CHF 1,000</i>	Tax (expense)/ benefit <i>CHF 1,000</i> <i>restated</i>	<b>2015</b> Net of tax amount <i>CHF 1,000</i>
<b>Items that may be reclassified subsequently to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	-95,848	11,601	-84,247
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	643	28	671
Remeasurement of defined benefit obligation	-123,023	27,065	-95,958
Other comprehensive income	-218,228	38,694	-179,534

## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	<b>2016</b>	2015
<b>Basic earnings per share</b>		
Net profit (CHF 1,000)	<b>550,708</b>	59,872
Weighted average number of shares outstanding	<b>5,750,000</b>	5,750,000
Basic earnings per share (CHF)	<b>95.78</b>	10.41
	<b>31.12.2016</b>	31.12.2015
<b>Shares outstanding</b>		
Total shares issued (par value CHF 100)	<b>5,750,000</b>	5,750,000
	<b>31.12.2016</b>	31.12.2015
<b>Share capital</b>		
Total share capital outstanding (CHF 1,000)	<b>575,000</b>	575,000

There are no dilutive effects.

There is no authorised share capital.

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
Due from banks	<b>13,769,510</b>	8,605,886	5,163,624
Allowance for credit losses	<b>-1,206</b>	-2,079	873
<b>Total</b>	<b>13,768,304</b>	8,603,807	5,164,497

Due from banks by type of collateral:

Securities collateral	<b>450,653</b>	1,024,227	-573,574
Without collateral	<b>13,317,651</b>	7,579,580	5,738,071
<b>Total</b>	<b>13,768,304</b>	8,603,807	5,164,497

### 9B LOANS

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
Loans	<b>27,358,403</b>	26,181,076	1,177,327
Mortgages	<b>7,514,242</b>	7,237,333	276,909
Subtotal	<b>34,872,645</b>	33,418,409	1,454,236
Allowance for credit losses	<b>-65,735</b>	-79,657	13,922
<b>Total</b>	<b>34,806,910</b>	33,338,752	1,468,158

Loans by type of collateral:

Securities collateral	<b>20,740,475</b>	18,583,682	2,156,793
Mortgage collateral	<b>7,528,687</b>	7,329,826	198,861
Other collateral (mainly cash and fiduciary deposits)	<b>6,475,172</b>	7,307,004	-831,832
Without collateral	<b>62,576</b>	118,240	-55,664
<b>Total</b>	<b>34,806,910</b>	33,338,752	1,468,158

## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF 1,000	<b>2016</b> Collective CHF 1,000	Specific CHF 1,000	2015 Collective CHF 1,000
Balance at the beginning of the year	<b>57,487</b>	<b>24,249</b>	28,411	21,096
Write-offs	<b>-26,975</b>	-	-2,502	-
Increase in allowance for credit losses	<b>11,781</b>	<b>3,100</b>	35,274	5,473
Decrease in allowance for credit losses	<b>-56</b>	<b>-3,054</b>	-3,590	-2,320
Translation differences and other adjustments	<b>409</b>	-	-106	-
<b>Balance at the end of the year</b>	<b>42,646</b>	<b>24,295</b>	57,487	24,249

## 9D IMPAIRED LOANS

	<b>31.12.2016</b> CHF 1,000	31.12.2015 CHF 1,000	Change CHF 1,000
Gross loans	<b>58,224</b>	61,941	-3,717
Specific allowance for credit losses	<b>-42,646</b>	-57,487	14,841
<b>Net loans</b>	<b>15,578</b>	4,454	11,124

## 10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2016</b> CHF 1,000	31.12.2015 CHF 1,000	Change CHF 1,000
<b>Trading assets</b>			
Debt instruments	<b>1,416,096</b>	1,160,775	255,321
<i>of which quoted</i>	<b>1,338,560</b>	1,102,587	235,973
<i>of which unquoted</i>	<b>77,536</b>	58,188	19,348
Equity instruments	<b>5,942,002</b>	5,865,832	76,170
<i>of which quoted</i>	<b>5,561,164</b>	5,453,326	107,838
<i>of which unquoted</i>	<b>380,838</b>	412,506	-31,668
Precious metals (physical)	<b>398,844</b>	2,026,327	-1,627,483
<b>Total</b>	<b>7,756,942</b>	9,052,934	-1,295,992
<b>Trading liabilities</b>			
Short positions - debt	<b>47,955</b>	117,209	-69,254
<i>of which quoted</i>	<b>44,723</b>	116,233	-71,510
<i>of which unquoted</i>	<b>3,232</b>	976	2,256
Short positions - equity	<b>110,998</b>	73,590	37,408
<i>of which quoted</i>	<b>95,964</b>	54,030	41,934
<i>of which unquoted</i>	<b>15,034</b>	19,560	-4,526
<b>Total</b>	<b>158,953</b>	190,799	-31,846

## 11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
<b>Money market instruments</b>	<b>3,654,112</b>	1,903,239	1,750,873
Government and agency bonds	<b>3,380,889</b>	3,430,080	-49,191
Financial institution bonds	<b>6,170,538</b>	6,068,460	102,078
Corporate bonds	<b>4,500,031</b>	4,384,632	115,399
Other bonds	<b>26,389</b>	34,749	-8,360
<b>Debt instruments</b>	<b>14,077,847</b>	13,917,921	159,926
<i>of which quoted</i>	<b>13,038,233</b>	12,959,064	79,169
<i>of which unquoted</i>	<b>1,039,614</b>	958,857	80,757
<b>Equity instruments</b>	<b>122,813</b>	76,520	46,293
<i>of which unquoted</i>	<b>122,813</b>	76,520	46,293
<b>Total</b>	<b>17,854,772</b>	15,897,680	1,957,092

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

Debt instruments by credit rating classes			<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>9,270,253</b>	8,874,145	396,108
3	A+ – A-	A1 – A3	<b>4,458,685</b>	4,659,473	-200,788
4	BBB+ – BBB-	Baa1 – Baa3	<b>266,745</b>	286,581	-19,836
5-7	BB+ – CCC-	Ba1 – Caa3	<b>52,145</b>	42,884	9,261
8-9	CC – D	Ca – C	-	4,268	-4,268
Unrated			<b>30,019</b>	50,570	-20,551
<b>Total</b>			<b>14,077,847</b>	13,917,921	159,926

## 12 GOODWILL, INTANGIBLE ASSETS, 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
<b>Historical cost</b>							
Balance on 01.01.2015	1,493.5	1,171.9	470.3	3,135.7	360.6	156.4	517.0
Additions	-	-	79.8	79.8	4.1	14.1	18.2
Acquisition from business combinations	8.2	13.6	-	21.8	-	-	-
Disposals/transfers <sup>1</sup>	-	-	1.6	1.6	-	2.4	2.4
Balance on 31.12.2015	1,501.7	1,185.5	548.5	3,235.7	364.7	168.1	532.8
Additions	-	-	137.6	137.6	4.2	23.5	27.7
Disposals/transfers <sup>1</sup>	-	-	18.5	18.5	-	9.7	9.7
Balance on 31.12.2016	1,501.7	1,185.5	667.6	3,354.8	368.9	181.9	550.8

### Depreciation, amortisation and impairment

Balance on 01.01.2015	-	789.4	271.5	1,060.9	73.4	114.3	187.7
Charge for the period	-	114.9	53.7 <sup>2</sup>	168.6	9.1	19.8 <sup>2</sup>	28.9
Disposals/transfers <sup>1</sup>	-	-	1.6	1.6	-	2.4	2.4
Balance on 31.12.2015	-	904.3	323.6	1,227.9	82.5	131.7	214.2
Charge for the period	-	47.4	32.7 <sup>3</sup>	80.1	11.1	19.9 <sup>3</sup>	31.0
Disposals/transfers <sup>1</sup>	-	-	18.5	18.5	-	9.7	9.7
Balance on 31.12.2016	-	951.7	337.8	1,289.5	93.6	141.9	235.5

### Carrying value

Balance on 31.12.2015	1,501.7	281.2	224.9	2,007.8	282.2	36.4	318.6
<b>Balance on 31.12.2016</b>	<b>1,501.7</b>	<b>233.8</b>	<b>329.8</b>	<b>2,065.3</b>	<b>275.3</b>	<b>40.0</b>	<b>315.3</b>

<sup>1</sup> Includes derecognition of fully depreciated and amortised assets

<sup>2</sup> Includes impairment of CHF 0.7 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

In 2016, the Bank adjusted the useful life of software up to a maximum of ten years. This change in estimate reduced the amortisation of software accordingly.

### 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 banks of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit. Within the Bank, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or bank of assets. In addition, management makes operating decisions based on information on the Bank level (see also Note 18 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Bank.

The acquisition of Merrill Lynch's International Wealth Management business did not change the legal or organisational structure of the Bank, as the acquired businesses have been immediately fully integrated into the existing Bank business organisation.

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

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

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. However, the Bank 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, but the Bank cannot exclude short-term market disruptions. The Bank also takes the relative strengths of itself as a pure private

banking competitor vis-à-vis its peers into consideration, 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 8.2% (2015: 8.9%).

The Bank'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 Bank 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 Bank 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%. This growth rate is considerably below the actual average rate of the last five years.

The discount rates used in the above calculation represent the Bank's specific risk-weighted rates.

### 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 the 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. 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 environment.

### 13 OPERATING LEASE COMMITMENTS

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
Not later than one year	<b>51,636</b>	47,364
Later than one year and not later than five years	<b>137,422</b>	125,798
Later than five years	<b>139,828</b>	93,517
<b>Subtotal</b>	<b>328,886</b>	266,679
Less sublease rentals received under non-cancellable leases	<b>22,205</b>	22,318
<b>Total</b>	<b>306,681</b>	244,361

Expenses for operating leases in the gross amount of CHF 48.2 million are included in operating expenses for the 2016 financial year (2015: CHF 43.9 million).

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

	Carrying value <i>CHF 1,000</i>	<b>31.12.2016</b> Effective commitment <i>CHF 1,000</i>	Carrying value <i>CHF 1,000</i>	31.12.2015 Effective commitment <i>CHF 1,000</i>
Securities	<b>917,567</b>	<b>917,567</b>	1,465,780	1,465,780
Other	<b>6,897</b>	<b>6,897</b>	14,354	14,354
<b>Total</b>	<b>924,464</b>	<b>924,464</b>	1,480,134	1,480,134

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

	2017 CHF m	2018 CHF m	2019 CHF m	2020 CHF m	2021 CHF m	2022– 2026 CHF m	un- assigned CHF m	31.12.2016 CHF m	31.12.2015 CHF m
Fixed rate	4,913.1	130.4	5.4	39.7	-	-	-	<b>5,088.6</b>	1,766.9
Interest rates (ranges in %)	0.1–76.8	1.05–13.0	3.0–5.4	1.2–2.2	-	-	-	-	-
Floating rate	1,125.8	321.5	254.4	145.0	267.1	370.9	871.1	<b>3,355.8</b>	2,496.2
<b>Total</b>	<b>6,038.9</b>	<b>451.9</b>	<b>259.8</b>	<b>184.7</b>	<b>267.1</b>	<b>370.9</b>	<b>871.1</b>	<b>8,444.4</b>	4,263.1

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 76.8%. 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 Bank cannot

determine the difference between the carrying amount and the amount the Bank 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.

## 16A DEFERRED TAX ASSETS

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
Balance at the beginning of the year	<b>13,571</b>	11,991
Income statement - credit	<b>1,418</b>	1,141
Income statement - charge	<b>-690</b>	-612
Recognised directly in OCI	<b>339</b>	1,051
<b>Balance at the end of the year</b>	<b>14,638</b>	13,571

The components of deferred tax assets are as follows:

Operating loss carry-forwards	<b>9,244</b>	9,244
Employee compensation and benefits	<b>3,932</b>	3,276
Financial investments available-for-sale	<b>1,390</b>	1,051
Property and equipment	<b>72</b>	-
<b>Total</b>	<b>14,638</b>	13,571

## 16B DEFERRED TAX LIABILITIES

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
Balance at the beginning of the year	<b>29,109</b>	118,173
Income statement - charge	<b>12,622</b>	836
Income statement - credit	<b>-2,215</b>	-52,257
Recognised directly in OCI	<b>17,806</b>	-37,643
<b>Balance at the end of the year</b>	<b>57,322</b>	29,109

The components of deferred tax liabilities are as follows:

Property and equipment	<b>14,995</b>	15,429
Financial investments available-for-sale	<b>24,939</b>	19,551
Intangible assets	<b>29,677</b>	36,430
Other	<b>13,987</b>	11,534
Deferred tax liability before set-off	<b>83,598</b>	82,944
Offset of pension liability taxes	<b>-26,276</b>	-53,835
<b>Total</b>	<b>57,322</b>	29,109

## 17 PROVISIONS

	Legal risks CHF 1,000	Other CHF 1,000	2016 Total CHF 1,000	2015 Total CHF 1,000
Balance at the beginning of the year	570,388	2,938	573,326	88,440
Utilised during the year	-562,783	-1,209	-563,992	-65,452
Provisions made during the year	7,077	864	7,941	532,770 <sup>1</sup>
Provisions reversed during the year	-3,973	-121	-4,094	-6,661
Translation differences	-3,351	-	-3,351	24,229
<b>Balance at the end of the year</b>	<b>7,358</b>	<b>2,472</b>	<b>9,830</b>	<b>573,326</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the settlement of the US Department of Justice's investigation in Julius Baer's legacy US cross-border business.

### Maturity of provisions

	2016	2015	2016	2015
Up to one year	673	492	1,165	552,286
Over one year	6,685	1,980	8,665	21,040

### Introduction

The Bank 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 Bank 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 Bank's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations.

The risks described below may not be the only risks to which the Bank is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Bank'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 Bank's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Bank 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 Bank – depending on the status of related proceedings – is difficult to assess.

The Bank 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 Bank 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 2016. The contingent liabilities might have a material effect on the Bank 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. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful

assessment of the potential outcome is not yet possible. The Bank is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests. In addition, as the BVI Courts oversee the Fairfield Funds' liquidation proceedings, the Bank introduced an application challenging the Fairfield Liquidators' authority to pursue the US Litigation. The BVI trial court dismissed the application. The Bank and other defendants have appealed the dismissal and the argument is scheduled to be heard in 2017. Further, the Fairfield Liquidators sought, and ultimately obtained, sanction from the BVI Courts to proceed with the litigation in the United States. The Bank and other defendants are challenging this sanction decision as well. In view of this pending application in the BVI and as the Fairfield cases pending in the courts of New York remain in preliminary stages, a meaningful assessment of the potential outcome is not yet possible. Finally, it is also worth mentioning that in the proceedings initiated by the Trustee, the Bankruptcy Court in New York issued a ruling in November 2016, reconfirming the extraterritoriality principles set by the District Court for the Southern District of New York which stated that the US Bankruptcy Code does not apply extraterritorially to allow for the recovery of fund payments received by a foreign bank ('foreign transferee') from a foreign fund ('foreign transferor'). While this ruling is in favour of the Bank and the other defendants, it is expected that the Trustee will appeal the 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 the Court decision, the mandate structures to which the Court decision 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 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) in 2013. On 8 February 2017, the Bank has been served with a claim from said corporation in liquidation in the amount of EUR 306 million. The court proceeding against the Bank has been initiated in the plaintiff's country of domicile in the European Union. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

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 ('mise en examen') into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014. In October 2014, as a precautionary measure, the Bank made the required security deposit in the amount of EUR 3.75 million with the competent French court. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger Bank 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 client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million. 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 is claimed. 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.

## ADDITIONAL INFORMATION

### 18 REPORTING BY SEGMENT

Bank Julius Baer & Co. Ltd. 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 Bank'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 Bank 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 Bank.

Various management reports with discrete financial information are prepared at regular intervals for various management levels. However, the Executive

Board of the Bank reviews and uses for its management decisions the consolidated financial reports on the level of the Bank only.

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Bank consists of the single reportable segment. This is in line with the strategy and business model of Bank Julius Baer & Co. Ltd. and reflects the management structure and the use of information by management in making operating decisions. The acquired Merrill Lynch International Wealth Management business did not change the management structure, as it has been fully integrated into the existing structures of the Bank.

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

#### Entity-wide disclosures

	<b>31.12.2016</b>	31.12.2015	<b>2016</b>	2015	<b>2016</b>	2015
	Total assets <i>CHF m</i>	<i>CHF m</i>	Operating income <i>CHF m</i>	<i>CHF m</i>	Investments <i>CHF m</i>	<i>CHF m</i>
Switzerland	<b>74,415</b>	64,163	<b>1,803</b>	1,803	<b>118,173</b>	100,193
Europe (excl. Switzerland)	<b>14,505</b>	11,090	<b>113</b>	135	-	277
Asia and other countries	<b>20,254</b>	19,067	<b>468</b>	477	<b>47,104</b>	19,259
Less consolidation items	<b>17,386</b>	13,597	<b>56</b>	45	-	-
<b>Total</b>	<b>91,788</b>	80,723	<b>2,328</b>	2,370	<b>165,277</b>	119,729

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



## 19 RELATED PARTY TRANSACTIONS

	<b>31.12.2016</b> <i>CHF 1,000</i>	31.12.2015 <i>CHF 1,000</i>
<b>Key management personnel compensation<sup>1</sup></b>		
Salaries and other short-term employee benefits	<b>16,412</b>	12,761
Post-employment benefits	<b>776</b>	644
Share-based payments	<b>6,809</b>	6,560
<b>Total</b>	<b>23,997</b>	19,965
<b>Receivables from</b>		
Julius Baer Group entities	<b>2,881,325</b>	2,266,707
significant shareholders <sup>2</sup>	<b>636,511</b>	68,975
key management personnel	<b>19,938</b>	21,514
<b>Total</b>	<b>3,537,774</b>	2,357,196
<b>Liabilities to</b>		
Julius Baer Group entities	<b>4,244,775</b>	2,746,147
significant shareholders <sup>2</sup>	<b>1,273,319</b>	1,107,516
key management personnel	<b>16,605</b>	7,892
own pension funds	<b>2,371</b>	3,558
<b>Total</b>	<b>5,537,070</b>	3,865,113
<b>Credit guarantees to</b>		
Julius Baer Group entities	<b>178,540</b>	70,582
significant shareholders <sup>2</sup>	-	25
key management personnel	<b>395</b>	420
<b>Total</b>	<b>178,935</b>	71,027
<b>Income from services provided to</b>		
Julius Baer Group entities	<b>229,033</b>	206,540
significant shareholders <sup>2</sup>	<b>102,428</b>	103,731
key management personnel	<b>563</b>	268
<b>Total</b>	<b>332,024</b>	310,539
<b>Services provided by</b>		
Julius Baer Group entities	<b>63,318</b>	49,147
significant shareholders <sup>2</sup>	<b>9,624</b>	4,457
<b>Total</b>	<b>72,942</b>	53,604

<sup>1</sup> Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel, the Chief Risk Officer and the Business Representative in 2016.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel and the Chief Risk Officer in 2015.

<sup>2</sup> Julius Baer Group Ltd.

The loans granted to key management personnel consist of Lombard loans on a secured basis (through pledging of the securities portfolios) and mortgage loans on a fixed and variable basis. Transactions with Group entities and own pension funds are at arm's length.

The interest rates of the Lombard loans and mortgage loans are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties adjusted for reduced credit risk.

## 20 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Bank 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 Bank 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 Bank's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Bank. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Bank 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.

	2016 CHF 1,000	2015 CHF 1,000
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,461,213	-2,280,951
Current service cost	-65,032	-60,520
Employees' contributions	-37,797	-33,707
Interest expense on defined benefit obligation	-18,547	-28,632
Past service cost, curtailments, settlements, plan amendments	56,647	-1,372
Benefits paid (including benefits paid directly by employer)	34,091	36,123
Transfer payments in/out	-493	-4
Experience gains/(losses) on defined benefit obligation	-29,089	-48,064
Actuarial gains/(losses) arising from change in demographic assumptions	9,262	76,341
Actuarial gains/(losses) arising from change in financial assumptions	-29,041	-121,527
Translation differences	3,267	1,100
Present value of defined benefit obligation at the end of the year	-2,537,945	-2,461,213
<i>whereof due to active members</i>	-1,638,201	-1,625,291
<i>whereof due to deferred members</i>	-13,581	-14,802
<i>whereof due to pensioners</i>	-886,163	-821,120
Fair value of plan assets at the beginning of the year	2,216,507	2,150,607
Interest income on plan assets	17,273	27,527
Employees' contributions	37,797	33,707
Employer's contributions	100,833	75,445
Curtailments, settlements, plan amendments	-606	-2,878
Benefits paid by fund	-34,091	-36,123
Transfer payments in/out	493	4
Administration cost (excluding asset management cost)	-909	-909
Return on plan assets (excluding interest income)	83,634	-30,101
Translation differences	-2,421	-772
Fair value of plan assets at the end of the year	2,418,510	2,216,507
	<b>31.12.2016</b>	31.12.2015
	CHF 1,000	CHF 1,000
<b>2. Balance sheet</b>		
Fair value of plan assets	2,418,510	2,216,507
Present value of defined benefit obligation	-2,537,945	-2,461,213
Net defined benefit asset/(liability)	-119,435	-244,706

	2016 CHF 1,000	2015 CHF 1,000
<b>3. Income statement</b>		
Current service cost	-65,032	-60,520
Interest expense on defined benefit obligation	-18,547	-28,632
Past service cost, curtailments, settlements, plan amendments	56,041 <sup>1</sup>	-4,250
Interest income on plan assets	17,273	27,527
Administration cost (excluding asset management cost)	-909	-909
Defined benefit cost recognised in the income statement	-11,174	-66,784
<i>whereof service cost</i>	-9,900	-65,679
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-1,274	-1,105

<sup>1</sup> In 2016, the Bank 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 61.5 million, which was recognised in the income statement.

#### 4. Movement in defined benefit liability

Net defined benefit asset/(liability) at the beginning of the year	-244,706	-130,344
Translation differences	846	328
Defined benefit cost recognised in the income statement	-11,174	-66,784
Employer's contributions	100,833	75,445
Remeasurements of the net defined benefit liability/(asset)	34,766	-123,351
<b>Amounts recognised in the balance sheet</b>	<b>-119,435</b>	<b>-244,706</b>

#### Remeasurements of the net defined benefit liability/(asset)

Actuarial gains/(losses) of defined benefit obligation	-48,868	-93,250
Return on plan assets (excluding interest income)	83,634	-30,101
<b>Total recognised in other comprehensive income</b>	<b>34,766</b>	<b>-123,351</b>

#### 5. Composition of plan assets

Cash	119,619	43,178
Debt instruments	729,530	692,271
Equity instruments	726,090	741,770
Real estate	398,408	336,884
Alternative investments	262,940	230,061
Other	181,923	172,343
<b>Total</b>	<b>2,418,510</b>	<b>2,216,507</b>

	2016 %	2015 %
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	4.95	1.95
Debt instruments	28.90	29.87
Equity instruments	30.02	33.47
Real estate	7.45	7.75
Other	12.72	10.70
<b>Total</b>	<b>84.04</b>	<b>83.74</b>

	2016 CHF 1,000	2015 CHF 1,000
<b>7. Sensitivities</b>		
Decrease of discount rate - 0.25%		
Effect on defined benefit obligation	<b>-66,953</b>	-67,278
Effect on service cost	<b>-2,276</b>	-2,199
Increase of discount rate + 0.25%		
Effect on defined benefit obligation	<b>63,369</b>	63,631
Effect on service cost	<b>2,143</b>	2,067
Decrease of salary increase - 0.25%		
Effect on defined benefit obligation	<b>8,698</b>	5,366
Effect on service cost	<b>864</b>	537
Increase of salary increase + 0.25%		
Effect on defined benefit obligation	<b>-8,898</b>	-5,359
Effect on service cost	<b>-885</b>	-539
Life expectancy		
Increase in longevity by one additional year	<b>52.6</b>	48.6

#### **Actuarial calculation of pension assets and obligations**

The latest actuarial calculation was carried out as at 31 December 2016. The actuarial assumptions are

based on local economic conditions and are as follows for Switzerland which accounts for about 99% (2015: 99%) of all benefit obligations and plan assets:

	2016	2015
Discount rate	<b>0.55%</b>	0.75%
Average future salary increases	<b>0.50%</b>	1.00%
Future pension increases	<b>0.00%</b>	0.00%
Duration (years)	<b>14</b>	15

#### **Investment in Julius Baer Group Ltd. shares**

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

#### **Expected employer contributions**

The expected employer contributions for the 2017 financial year related to defined benefit plans are estimated at CHF 80.4 million.

#### **Outstanding liabilities to pension plans**

The Bank had outstanding liabilities to various pension plans in the amount of CHF 2.4 million (2015: CHF 3.6 million).

#### **Defined contribution pension plans**

Bank Julius Baer & Co. Ltd. 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 17.9 million for the 2016 financial year (2015: CHF 17.3 million).

## 21 SECURITIES TRANSACTIONS

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

	31.12.2016 CHF m	31.12.2015 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	<b>16.2</b>	17.3
<i>of which recognised in due from banks</i>	<b>16.2</b>	17.3
Receivables from cash provided in reverse repurchase transactions	<b>1.4</b>	866.2
<i>of which recognised in due from banks</i>	<b>1.4</b>	646.0
<i>of which recognised in loans</i>	-	220.2
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	<b>1,301.2</b>	1,028.4
<i>of which recognised in due to banks</i>	<b>1,301.2</b>	1,028.4
Obligations to return cash received in repurchase transactions	<b>248.3</b>	307.7
<i>of which recognised in due to banks</i>	<b>248.3</b>	307.7
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	<b>2,342.3</b>	2,026.5
<i>of which securities the right to pledge or sell has been granted without restriction</i>	<b>2,342.3</b>	2,026.5
<i>of which recognised in trading assets</i>	<b>1,543.2</b>	1,580.1
<i>of which recognised in financial investments available-for-sale</i>	<b>799.1</b>	446.4
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	<b>2,138.7</b>	2,841.8
<i>of which repledged or resold securities</i>	<b>2,032.3</b>	1,432.3

The Bank 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 fulfill 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.

## 22 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	Contract/ Notional amount <i>CHF m</i>	Positive replacement value <i>CHF m</i>	Negative replacement value <i>CHF m</i>
<b>Foreign exchange derivatives</b>			
Forward contracts	66,013.3	757.3	675.8
Futures	97.6	0.1	0.1
Cross-Currency Swaps	267.9	-	5.0
Options (OTC)	39,216.0	460.7	362.9
<b>Total foreign exchange derivatives 31.12.2016</b>	<b>105,594.8</b>	<b>1,218.1</b>	<b>1,043.8</b>
Total foreign exchange derivatives 31.12.2015	103,307.4	989.1	778.4
<b>Interest rate derivatives</b>			
Swaps	8,797.4	108.8	103.3
Futures	791.9	1.4	1.7
Options (OTC)	261.8	13.1	6.9
<b>Total interest rate derivatives 31.12.2016</b>	<b>9,851.1</b>	<b>123.3</b>	<b>111.9</b>
Total interest rate derivatives 31.12.2015	9,767.2	112.0	111.0
<b>Precious metals derivatives</b>			
Forward contracts	1,687.4	18.9	61.7
Futures	180.4	1.3	-
Options (OTC)	2,788.7	190.9	37.4
<b>Total precious metals derivatives 31.12.2016</b>	<b>4,656.5</b>	<b>211.1</b>	<b>99.1</b>
Total precious metals derivatives 31.12.2015	2,940.9	159.6	36.9
<b>Equity/indices derivatives</b>			
Futures	1,812.3	48.5	43.0
Options (OTC)	10,303.4	176.2	181.3
Options (traded)	9,525.9	853.2	670.4
<b>Total equity/indices derivatives 31.12.2016</b>	<b>21,641.6</b>	<b>1,077.9</b>	<b>894.7</b>
Total equity/indices derivatives 31.12.2015	19,739.5	895.2	1,361.1
<b>Other derivatives</b>			
Futures	144.1	0.5	2.7
<b>Total other derivatives 31.12.2016</b>	<b>144.1</b>	<b>0.5</b>	<b>2.7</b>
Total other derivatives 31.12.2015	127.9	10.3	-

**Derivatives held for trading (continued)**

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Credit derivatives</b>			
Credit default swaps	295.0	0.1	6.7
Total return swaps	66.6	2.3	0.2
Other	39.4	-	10.2
<b>Total credit derivatives 31.12.2016</b>	<b>401.0</b>	<b>2.4</b>	<b>17.1</b>
Total credit derivatives 31.12.2015	180.5	0.6	9.9
<b>Total derivatives held for trading 31.12.2016</b>	<b>142,289.1</b>	<b>2,633.3</b>	<b>2,169.3</b>
Total derivatives held for trading 31.12.2015	136,063.4	2,166.8	2,297.3

**Derivatives held for hedging**

**Derivatives designated as fair value hedges**

Interest rate swaps	2,171.1	10.8	71.9
<b>Total derivatives held for hedging 31.12.2016</b>	<b>2,171.1</b>	<b>10.8</b>	<b>71.9</b>
Total derivatives held for hedging 31.12.2015	1,442.5	-	72.5
<b>Total derivative financial instruments 31.12.2016</b>	<b>144,460.2</b>	<b>2,644.1</b>	<b>2,241.2</b>
Total derivative financial instruments 31.12.2015	137,505.9	2,166.8	2,369.8



## 23A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Carrying value CHF m	<b>31.12.2016</b> Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	11,805.6	11,805.6	8,256.0	8,256.0
Due from banks	13,768.3	13,786.5	8,603.8	8,611.7
Loans	34,806.9	35,226.0	33,338.8	33,780.6
Accrued income	218.1	218.1	289.8	289.8
<b>Total</b>	<b>60,598.9</b>	<b>61,036.2</b>	50,488.4	50,938.1
<b>Held for trading</b>				
Trading assets	7,358.1	7,358.1	7,026.6	7,026.6
Derivative financial instruments	2,633.3	2,633.3	2,166.8	2,166.8
<b>Total</b>	<b>9,991.4</b>	<b>9,991.4</b>	9,193.4	9,193.4
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	10.8	10.8	-	-
<b>Total</b>	<b>10.8</b>	<b>10.8</b>	-	-
<b>Designated at fair value</b>				
Financial assets designated at fair value	252.4	252.4	197.0	197.0
<b>Total</b>	<b>252.4</b>	<b>252.4</b>	197.0	197.0
<b>Available-for-sale</b>				
Financial investments available-for-sale	17,854.8	17,854.8	15,897.7	15,897.7
<b>Total</b>	<b>17,854.8</b>	<b>17,854.8</b>	15,897.7	15,897.7
<b>Total financial assets</b>	<b>88,708.3</b>	<b>89,145.6</b>	75,776.5	76,226.2

**Financial liabilities**

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	14,248.9	14,249.3	7,391.2	7,391.4
Due to customers	61,265.0	61,392.9	60,772.6	60,922.1
Accrued expenses	146.0	146.0	143.8	143.8
<b>Total</b>	<b>75,659.9</b>	<b>75,788.2</b>	68,307.6	68,457.3
<b>Held for trading</b>				
Trading liabilities	159.0	159.0	190.8	190.8
Derivative financial instruments	2,169.3	2,169.3	2,297.3	2,297.3
<b>Total</b>	<b>2,328.3</b>	<b>2,328.3</b>	2,488.1	2,488.1
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	71.9	71.9	72.5	72.5
<b>Total</b>	<b>71.9</b>	<b>71.9</b>	72.5	72.5
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	8,444.4	8,444.4	4,263.1	4,263.1
<b>Total</b>	<b>8,444.4</b>	<b>8,444.4</b>	4,263.1	4,263.1
<b>Total financial liabilities</b>	<b>86,504.5</b>	<b>86,632.8</b>	75,131.3	75,281.0

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; mortgages; 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 fundamentally approximates the fair value.

**Long-term financial instruments**

Depending on the maturity, these include the following balance sheet items: due from banks; loans; mortgages; 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 and mortgages, 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 23B for details regarding the valuation of these instruments.

## 23B 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 Bank holds certain equity instruments, which are required for the operation of the Bank 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 2016, dividends related to these investments in the amount of CHF 7.3 million have been recognised in the income statement.

*Financial instruments designated at fair value:* The Bank 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 Bank'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 Bank's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Bank 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:

	<b>31.12.2016</b>			
	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	<b>Total</b> CHF m
<b>Assets and liabilities measured at fair values</b>				
Trading assets - debt instruments	1,369.4	46.7	-	1,416.1
Trading assets - equity instruments	5,560.7	381.3	-	5,942.0
<b>Total trading assets</b>	<b>6,930.1</b>	<b>428.0</b>	<b>-</b>	<b>7,358.1</b>
Foreign exchange derivatives	0.1	1,218.0	-	1,218.1
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.2	209.9	-	211.1
Equity/indices derivatives	48.5	1,029.4	-	1,077.9
Credit derivatives	-	2.4	-	2.4
Other derivatives	0.5	-	-	0.5
<b>Total derivative financial instruments</b>	<b>51.7</b>	<b>2,592.4</b>	<b>-</b>	<b>2,644.1</b>
<b>Financial assets designated at fair value</b>	<b>128.3</b>	<b>29.3</b>	<b>94.8</b>	<b>252.4</b>
Financial investments available-for-sale – money market instruments	516.3	3,137.8	-	3,654.1
Financial investments available-for-sale – debt instruments	13,183.1	894.7	-	14,077.8
Financial investments available-for-sale – equity instruments	-	0.5	122.4	122.9
<b>Total financial investments available-for-sale</b>	<b>13,699.4</b>	<b>4,033.0</b>	<b>122.4</b>	<b>17,854.8</b>
<b>Total assets</b>	<b>20,809.5</b>	<b>7,082.7</b>	<b>217.2</b>	<b>28,109.4</b>
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
<b>Total trading liabilities</b>	<b>140.6</b>	<b>18.4</b>	<b>-</b>	<b>159.0</b>
Foreign exchange derivatives	0.1	1,043.7	-	1,043.8
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	0.0	99.1	-	99.1
Equity/indices derivatives	43.0	861.9	-	904.9
Credit derivatives	-	6.9	-	6.9
Other derivatives	2.7	-	-	2.7
<b>Total derivative financial instruments</b>	<b>47.5</b>	<b>2,193.7</b>	<b>-</b>	<b>2,241.2</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>8,180.8</b>	<b>263.6</b>	<b>8,444.4</b>
<b>Total liabilities</b>	<b>188.1</b>	<b>10,392.9</b>	<b>263.6</b>	<b>10,844.6</b>

31.12.2015

	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	775.7	385.1	-	1,160.8
Trading assets - equity instruments	5,451.9	413.9	-	5,865.8
Total trading assets	6,227.6	799.0	-	7,026.6
Foreign exchange derivatives	0.1	989.0	-	989.1
Interest rate derivatives	2.2	109.8	-	112.0
Precious metal derivatives	1.0	158.6	-	159.6
Equity/indices derivatives	22.3	872.9	-	895.2
Credit derivatives	-	0.6	-	0.6
Other derivatives	10.3	-	-	10.3
Total derivative financial instruments	35.9	2,130.9	-	2,166.8
Financial assets designated at fair value	121.8	27.0	48.2	197.0
Financial investments available-for-sale - money market instruments	-	1,903.3	-	1,903.3
Financial investments available-for-sale - debt instruments	10,217.2	3,700.7	-	13,917.9
Financial investments available-for-sale - equity instruments	-	0.5	76.0	76.5
Total financial investments available-for-sale	10,217.2	5,604.5	76.0	15,897.7
<b>Total assets</b>	<b>16,602.5</b>	<b>8,561.4</b>	<b>124.2</b>	<b>25,288.1</b>
Short positions - debt instruments	81.2	36.0	-	117.2
Short positions - equity instruments	54.0	19.6	-	73.6
Total trading liabilities	135.2	55.6	-	190.8
Foreign exchange derivatives	-	778.4	-	778.4
Interest rate derivatives	3.4	180.1	-	183.5
Precious metal derivatives	-	36.9	-	36.9
Equity/indices derivatives	20.3	1,340.8	-	1,361.1
Credit derivatives	-	9.9	-	9.9
Total derivative financial instruments	23.7	2,346.1	-	2,369.8
Financial liabilities designated at fair value	-	4,059.6	203.5	4,263.1
<b>Total liabilities</b>	<b>158.9</b>	<b>6,461.3</b>	<b>203.5</b>	<b>6,823.7</b>

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

				<b>31.12.2016</b>
	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	<b>Total</b> CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	11,805.6	-	-	11,805.6
Due from banks	-	13,786.5	-	13,786.5
Loans	-	35,226.0	-	35,226.0
Accrued income	-	218.1	-	218.1
<b>Total assets</b>	<b>11,805.6</b>	<b>49,230.6</b>	<b>-</b>	<b>61,036.2</b>
<hr/>				
Due to banks	-	14,249.3	-	14,249.3
Due to customers	-	61,392.9	-	61,392.9
Accrued expenses	-	146.0	-	146.0
<b>Total liabilities</b>	<b>-</b>	<b>75,788.2</b>	<b>-</b>	<b>75,788.2</b>
<hr/>				
				31.12.2015
	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
Asset and liabilities disclosed at fair value				
Cash	8,256.0	-	-	8,256.0
Due from banks	-	8,611.7	-	8,611.7
Loans	-	33,780.6	-	33,780.6
Accrued income	-	289.8	-	289.8
<b>Total assets</b>	<b>8,256.0</b>	<b>42,682.1</b>	<b>-</b>	<b>50,938.1</b>
<hr/>				
Due to banks	-	7,391.4	-	7,391.4
Due to customers	-	60,922.1	-	60,922.1
Accrued expenses	-	143.8	-	143.8
<b>Total liabilities</b>	<b>-</b>	<b>68,457.3</b>	<b>-</b>	<b>68,457.3</b>

23C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	<b>31.12.2016</b> <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Transfers from level 1 to level 2</b>		
Trading assets	1.3	124.7
Derivative financial instruments	-	106.0
Financial investments available-for-sale	-	2,187.0
Trading liabilities	-	4.7
Derivative financial instruments	-	313.0
Financial liabilities designated at fair value	-	321.5
<b>Transfers from level 2 to level 1</b>		
Trading assets	244.0	38.5
Financial investments available-for-sale	2,141.4	580.0
Trading liabilities	0.5	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.

## 23D FINANCIAL INSTRUMENTS – OFFSETTING

As a private bank, the Bank 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 Bank applies credit mitigation strategies in the ordinary course of business. The Bank 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 Bank's arrangements may not fulfil the strict offsetting criteria as required by IFRS, the Bank 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 Bank does not apply netting on its balance sheet, the cash collateral provided in securities borrowing and reverse repurchase transactions in the amount of CHF 17.6 million (2015: CHF 883.5 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,549.5 million (2015: CHF 1,336.1 million) as disclosed in Note 21 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 1,739.1 million (positive replacement values) and CHF 1,523.3 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 Bank'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 664.3 million (2015: CHF 462.9 million) which could be offset with the corresponding outstanding amount.

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



## 24A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2016

	Head Office	Currency	Share capital m	Equity interest %
<b>Banks</b>				
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich</i>				
<i>Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv</i>				
<i>including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100

## 24B UNCONSOLIDATED STRUCTURED ENTITIES

The Bank 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 Bank's clients. The Bank 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 Bank 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 Bank does not have control over the underlying investments, but only consolidates the limited partnerships.

## 25 ACQUISITIONS

Apart from the acquisition of Merrill Lynch's International Wealth Management business (see Note 28 for details), no transaction was executed.

## 26 SHARE-BASED PAYMENTS AND OTHER COMPENSATION PLANS

The programmes described below reflect the plan landscape as at 31 December 2016. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Bank's overall compensation landscape is described in the chapter Remuneration Report of Julius Baer Group Ltd.

The Bank hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the Loteco Foundation. Until vesting, the granted shares are administered by the foundation.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation – Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation – Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Bank through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation – Equity Performance Plan*

The Equity Performance Plan (EPP) is a key element of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the entire Julius Baer Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer and total variable compensation. All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, contribution to Julius Baer, defined total pay mix and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible executives subject to service and performance-based requirements. The EPP award reflects the value of the employee for the future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Julius Baer Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting

mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch Relationship Managers)*  
As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key Relationship Managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to Julius Baer.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

#### *Cash-based integration programmes*

As part of its integration of Bank of America Merrill Lynch's International Wealth Management business, Julius Baer established two cash-based programmes.

The first programme, the Replacement Award, is a programme which provides cash compensation in lieu of awards that were forfeited as a result of the corporate acquisition. The actual value of forfeiture is paid out in up to four tranches (depending on the size of the award) over a period of up to 18 months.

The second programme, the Asset Transfer Award, is a performance-based programme offered to relationship managers transferring to the Bank. The Asset Transfer Award, which is geared towards further accelerating the transfer of assets under management to the Bank, offered the participants a cash payment upon reaching specific asset-transfer hurdles (as measured on the basis of assets under management).

#### *Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events

where the employee's behaviour has substantially contributed to a financial loss of the Bank or caused reputational damage.

#### *Long-Term Incentive Plan (LTI)*

In certain specific situations the Bank may also offer incentives outside the annual compensation cycle. Actions such as compensating new hires for deferred awards they have forfeited by resigning from their previous employer or making retention payments to key employees during extraordinary or critical circumstances may be carried out by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Bank currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff vesting of all granted shares in one single tranche at the end of the three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. All grants made in 2014 and 2015 are free from restrictions upon vesting.

#### *Staff Participation Plan (SPP)*

The SPP is offered to most of the Bank's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Bank equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer shares at the prevailing market price and for every three shares so

purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Bank, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Bank.

#### **Financing of share plans**

Julius Baer Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the Loteco Foundation. Until vesting, the granted shares are administered by the foundation. The Bank finances these shares purchased by the Loteco Foundation. At the end of the reporting period the Bank recognised the amount of CHF 45.1 million (2015: CHF 29.2 million) as 'prefinanced share-based payments' included in other assets. This asset will be recovered over the vesting period by way of a capital distribution representing the recharge of share-based payments made by the Loteco Foundation.

In the reporting period this capital distribution amounted to CHF 48.3 million (2015: CHF 42.7 million).

To the extent that the prefinanced share-based payments will not result in vested share-based payments the asset will be recovered in cash from the Loteco Foundation.

The expense related to prefinanced share-based payments amount to CHF 48.3 million (2015: CHF 42.7 million).

Movements in shares/performance units granted under various participation plans are as follows:

	<b>31.12.2016</b>		31.12.2015	
	Number of units Economic Profit	Number of units Total Shareholder Return	Number of units Economic Profit	Number of units Total Shareholder Return
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>488,173</b>	<b>488,173</b>	206,458	206,458
Granted during the year	<b>287,249</b>	<b>287,249</b>	286,543	286,543
Exercised during the year	<b>-46,160</b>	<b>-46,160</b>	-3,360	-3,360
Forfeited during the year	<b>-85,532</b>	<b>-85,532</b>	-1,468	-1,468
Unvested units outstanding, at the end of the year	<b>643,730</b>	<b>643,730</b>	488,173	488,173

	<b>31.12.2016</b>	31.12.2015
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>904,945</b>	713,795
Granted during the year	<b>492,563</b>	547,163
Vested during the year	<b>-361,884</b>	-303,403
Transferred (net) during the year	<b>4,022</b>	-796
Forfeited during the year	<b>-82,843</b>	-51,814
Unvested shares outstanding, at the end of the year	<b>956,803</b>	904,945
Weighted average fair value per share granted (CHF)	<b>39.28</b>	43.84
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>43,276</b>	44,035

	<b>31.12.2016</b>	31.12.2015
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>404,462</b>	596,898
Vested during the year	<b>-409,058</b>	-182,642
Transferred (net) during the year	<b>4,596</b>	-1,850
Forfeited during the year	-	-7,944
Unvested shares outstanding, at the end of the year	-	404,462
Fair value of outstanding shares at the end of the year (CHF 1,000)	-	19,681

	Number of units Economic Profit	31.12.2015 Number of units Total Shareholder Return
<b>Incentive Share Plan</b>		
Unvested units outstanding, at the beginning of the year	114,397	114,397
Exercised during the year	-113,483	-113,483
Forfeited during the year	-914	-914
Unvested units outstanding, at the end of the year	-	-

	31.12.2016	31.12.2015
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	<b>300,335</b>	311,473
Transferred (net) during the year	-	5,675
Forfeited during the year	<b>-12,809</b>	-16,813
Unvested shares outstanding, at the end of the year	<b>287,526</b>	300,335
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>13,005</b>	14,614

	31.12.2016	31.12.2015
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>267,001</b>	206,605
Granted during the year	<b>285,125</b>	206,486
Vested during the year	<b>-129,188</b>	-121,598
Transferred (net) during the year	<b>284</b>	1,841
Forfeited during the year	<b>-43,931</b>	-26,333
Unvested shares outstanding, at the end of the year	<b>379,291</b>	267,001
Weighted average fair value per share awarded (CHF)	<b>40.69</b>	47.49
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>17,155</b>	12,992

	<b>31.12.2016</b>	31.12.2015
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>103,754</b>	106,251
Granted during the year	<b>43,889</b>	34,181
Vested during the year	<b>-37,516</b>	-33,855
Transferred (net) during the year	<b>-208</b>	-79
Forfeited during the year	<b>-3,425</b>	-2,744
Unvested shares outstanding, at the end of the year	<b>106,494</b>	103,754
Weighted average fair value per share granted (CHF)	<b>42.74</b>	45.94
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>4,817</b>	5,049

Compensation expense recognised for the various share plans are:

	<b>31.12.2016</b> <i>CHF m</i>	31.12.2015 <i>CHF m</i>
<b>Compensation expense</b>		
Equity Performance Plan	<b>17.2</b>	11.5
Premium Share Plan	<b>17.3</b>	17.2
Incentive Share Plan	<b>0.4</b>	5.4
Integration Incentive Award	<b>2.8</b>	2.9
Long-Term Incentive Plan	<b>9.0</b>	4.2
Staff Participation Plan	<b>1.6</b>	1.5
<b>Total</b>	<b>48.3</b>	42.7

## 27 ASSETS UNDER MANAGEMENT

Assets under management include all bankable assets managed by or deposited with the Bank for investment purposes. Assets included are portfolios of wealth management clients for which the Bank provides discretionary or advisory asset management services. Assets deposited with the Bank held for transactional or safekeeping/custody purposes, and where the Bank 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 the assets for which the investment decisions are made by the Bank, and cover assets deposited with the Bank as well as assets deposited at third-party institutions. Other assets under management are defined as the 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 Bank.

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 Bank subsidiary or business are stated separately. 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 Bank are not considered assets managed by or deposited with the Bank 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**

	<b>2016</b> <i>CHF m</i>	2015 <i>CHF m</i>	Change %
Assets with discretionary mandate	<b>39,390</b>	38,379	2.6
Other assets under management	<b>239,354</b>	221,434	8.1
<b>Total assets under management (including double counting)</b>	<b>278,744</b>	259,813	7.3
<i>of which double counting</i>	<b>5,757</b>	4,768	20.7
Change through net new money	<b>7,736</b>	8,861	
Change through market and currency impacts	<b>11,203</b>	-8,838	
Change through acquisition	-	1,288 <sup>1</sup>	
Change through divestment	<b>-8</b>	-69	
Client assets	<b>334,203</b>	326,823 <sup>2</sup>	2.3

<sup>1</sup> In March 2015, the Bank acquired the business of Leumi Private Bank Ltd.

<sup>2</sup> Excluding assets which were previously counted as assets under management and assets under custody.

**Breakdown of assets under management**

	2016 %	2015 %
<b>By types of investment</b>		
Equities	28	27
Bonds (including convertible bonds)	21	20
Investment funds	20	21
Money market instruments	7	4
Client deposits	17	22
Structured products	6	5
Other	1	1
<b>Total</b>	<b>100</b>	<b>100</b>

<b>By currencies</b>		
CHF	12	13
EUR	18	19
USD	49	47
GBP	5	5
SGD	2	2
HKD	3	3
RUB	1	1
CAD	1	1
Other	9	9
<b>Total</b>	<b>100</b>	<b>100</b>

Client assets are defined as all bankable assets managed by or deposited with the Bank 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.

## 28 ACQUISITION OF MERRILL LYNCH'S INTERNATIONAL WEALTH MANAGEMENT BUSINESS

### Transaction summary

On 13 August 2012, Julius Baer Group announced to acquire Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America. The acquisition was structured as a combination of legal entity acquisitions and business transfers. Principal closing occurred on 1 February 2013. Since then, legal entity purchases and asset transfers have happened during the integration period which ended in the first quarter of 2015.

The income and expenses related to the AuM which are booked with the Bank were recorded according to the Bank's accounting policies. In addition, the Bank received from Merrill Lynch & Co., Inc. the revenues related to the AuM reported (i.e. the AuM transferred to the Bank but not yet booked by the Bank) and was charged with platform and other central service costs by Merrill Lynch & Co., Inc. These revenues were recognised in commission income with the related cost expensed through other general expenses. Any other expenses were also recorded according to the Bank's accounting policies.

### Purchase price

The consideration payable in USD to Merrill Lynch & Co., Inc. was 1.2% of AuM, payable as and when AuM were transferred to a Bank Julius Baer booking platform. In addition, the Bank paid CHF-for-CHF for any net asset value of the companies and businesses that were transferred in the acquisition, as and when the companies and businesses to which the net asset value was attributable were transferred.

The purchase price was partially funded by existing excess capital of the Bank. In addition, Julius Baer Group Ltd. provided capital contributions in kind.

### Final status as at 31 December 2015

As at 31 December 2015, AuM in the amount of CHF 40.3 billion (fair value as of the respective acquisition date) have been booked with the Bank, whereof CHF 2.3 billion have been reclassified to assets under custody.

The transaction resulted in the recognition of goodwill and intangible assets (customer relationships) in the amount of CHF 645.0 million. This amount consists of the following components:

- the contractual consideration of 1.2% of the AuM booked;
- adjustments due to the remeasurement to fair value of the assets acquired and the liabilities assumed in the process of the purchase price allocation;
- the increase in the fair value as compared to the contractually agreed value of USD 35.20 for the shares of Julius Baer Group Ltd. provided as part of the consideration; and
- foreign exchange fluctuations.

Therefore, the purchase price of CHF 686.1 million was paid for goodwill and intangible assets and net asset values of the acquired legal entities.

The legal entities as well as the business acquired have been fully integrated into the existing Bank structure (including rebranding of the continued legal entities).

The assets and liabilities of the acquired IWM entities and businesses were recorded as follows:

	Fair value CHF 1,000
<b>Purchase price</b>	
in cash	634,251
capital contribution in kind <sup>1</sup>	51,885
<b>Total</b>	<b>686,136</b>
<b>Assets acquired</b>	
Cash	271,530
Due from banks	7,646,446
Loans <sup>2</sup>	3,649,547
All other assets	129,077
<b>Total</b>	<b>11,696,600</b>
<b>Liabilities assumed</b>	
Due to banks	3,478,268
Due to customers	7,973,428
Deferred tax liabilities	25,620
All other liabilities	178,125
<b>Total</b>	<b>11,655,441</b>
<b>Goodwill and other intangible assets related to legal entity acquisitions and to business transfers</b>	
Goodwill	363,996
Customer relationships	280,981
<b>Total</b>	<b>644,977</b>

<sup>1</sup> The capital contribution in kind reflects the difference between the contractual value and the acquisition date fair value of the Group's consideration shares, which were part of the purchase price for Merrill Lynch's International Wealth Management business. The Bank recognised a capital contribution in equity relating to this amount, for which the Bank did not incur any costs.

<sup>2</sup> At the acquisition date, the gross contractual amount of loans acquired was CHF 3,650 million.

## 29 REQUIREMENTS OF SWISS BANKING LAW

The Bank 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'.

Under IFRS, goodwill is not amortised but must be 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.

## 30 EVENTS AFTER THE BALANCE SHEET DATE

There are no events to report that had an influence on the balance sheet or the income statement for the 2016 financial year.

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF BANK JULIUS BAER & CO. LTD., ZURICH



**KPMG AG**  
**Audit Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Internet [www.kpmg.ch](http://www.kpmg.ch)

Statutory Auditor's Report to the General Meeting of

**Bank Julius Baer & Co. Ltd., Zurich**

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## **Report on the Audit of the Consolidated Financial Statements**

### *Opinion*

We have audited the consolidated financial statements of Bank Julius Baer & Co. Ltd. and its subsidiaries (the Bank), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (pages 4 to 93).

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### *Basis for Opinion*

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information in the Annual Report*

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



**Bank Julius Baer & Co. Ltd., Zurich**  
*Statutory Auditor's Report  
on the Audit of the Consolidated Financial Statements  
to the General Meeting*

*Responsibility of the Board of Directors for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



**Bank Julius Baer & Co. Ltd., Zurich**  
*Statutory Auditor's Report  
on the Audit of the Consolidated Financial Statements  
to the General Meeting*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

A handwritten signature in black ink, appearing to read 'Rickert'.

Philipp Rickert  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink, appearing to read 'Castagna'.

Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 22 February 2017



**Appendix 2:**  
**BJB Consolidated Financial Statements**  
**2017**

Income Statement	G-2
Statement of Comprehensive Income	G-3
Balance Sheet	G-4
Statement of Changes in Equity	G-6
Statement of Cash Flows	G-8
Notes	G-47
Auditor's Report	G-94

**Appendix 2:**  
**BJB Konsolidierte Finanzinformationen**  
**2017**

Gewinn- und Verlustrechnung	G-2
Gesamtergebnisrechnung	G-3
Bilanz	G-4
Eigenkapitalveränderungsrechnung	G-6
Kapitalflussrechnung	G-8
Anhang	G-47
Bestätigungsvermerk der Abschlussprüfer	G-94

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENT

	Note	2017 CHF 1,000	2016 CHF 1,000	Change %
Interest and dividend income		<b>1,121,330</b>	989,087	13.4
Interest expense		<b>175,985</b>	131,020	34.3
Net interest and dividend income	1	<b>945,345</b>	858,067	10.2
Commission and fee income		<b>1,738,097</b>	1,506,194	15.4
Commission expense		<b>445,723</b>	390,443	14.2
Net commission and fee income	2	<b>1,292,374</b>	1,115,751	15.8
Net trading income	3	<b>277,821</b>	316,890	-12.3
Other ordinary results	4	<b>28,240</b>	37,429	-24.6
<b>Operating income</b>		<b>2,543,780</b>	2,328,137	9.3
Personnel expenses	5	<b>1,114,496</b>	1,008,139	10.5
General expenses	6	<b>566,317</b>	542,807	4.3
Depreciation of property and equipment	12	<b>34,209</b>	31,048	10.2
Amortisation of customer relationships	12	<b>47,351</b>	47,351	-
Amortisation and impairment of other intangible assets	12	<b>42,255</b>	32,691	29.3
<b>Operating expenses</b>		<b>1,804,628</b>	1,662,036	8.6
<b>Profit before taxes</b>		<b>739,152</b>	666,101	11.0
Income taxes	7	<b>118,936</b>	115,393	3.1
<b>Net profit attributable to the shareholder of Bank Julius Baer &amp; Co. Ltd.</b>		<b>620,216</b>	550,708	12.6

	Note	2017 CHF	2016 CHF	Change %
<b>Share information</b>				
Basic earnings per share (EPS)	8	<b>107.86</b>	95.78	12.6
Diluted earnings per share (EPS)	8	<b>107.86</b>	95.78	12.6
Dividend proposal 2017 and dividend 2016		<b>64.35</b>	38.26	68.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>
<b>Net profit recognised in the income statement</b>	<b>620,216</b>	550,708
Other comprehensive income (net of taxes):		
<b>Items that may be reclassified to the income statement</b>		
Net unrealised gains/(losses) on financial investments available-for-sale	-11,909	19,751
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	6,469	3,920
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement of defined benefit obligation	3,858	27,777
<b>Other comprehensive income</b>	<b>-1,582</b>	51,448
<b>Total comprehensive income attributable to the shareholder of Bank Julius Baer &amp; Co. Ltd.</b>	<b>618,634</b>	602,156

## CONSOLIDATED BALANCE SHEET

	<i>Note</i>	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
<b>Assets</b>			
Cash		<b>8,784,983</b>	11,805,590
Due from banks	9	<b>8,297,986</b>	13,768,304
Loans	9	<b>42,369,198</b>	34,806,910
Trading assets	10	<b>12,857,570</b>	7,756,942
Derivative financial instruments	22	<b>1,917,787</b>	2,644,082
Financial assets designated at fair value	23	<b>265,571</b>	252,364
Financial investments available-for-sale	11	<b>11,988,305</b>	17,854,772
Property and equipment	12	<b>301,587</b>	315,255
Goodwill and other intangible assets	12	<b>2,115,917</b>	2,065,301
Accrued income and prepaid expenses		<b>266,044</b>	248,296
Deferred tax assets	16	<b>10,487</b>	14,638
Other assets		<b>1,177,547</b>	255,505
<b>Total assets</b>		<b>90,352,982</b>	91,787,959

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD  
**CONSOLIDATED FINANCIAL STATEMENTS**

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	<i>Note</i>	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
<b>Liabilities and equity</b>			
Due to banks		<b>9,343,097</b>	14,248,864
Due to customers		<b>61,128,698</b>	61,264,955
Trading liabilities	10	<b>135,831</b>	158,953
Derivative financial instruments	22	<b>1,993,678</b>	2,241,182
Financial liabilities designated at fair value	15	<b>11,836,724</b>	8,444,443
Accrued expenses and deferred income		<b>494,882</b>	468,391
Current tax liabilities		<b>163,754</b>	104,388
Deferred tax liabilities	16	<b>43,505</b>	57,322
Provisions	17	<b>23,944</b>	9,830
Other liabilities		<b>219,134</b>	222,068
<b>Total liabilities</b>		<b>85,383,247</b>	87,220,396
Share capital		<b>575,000</b>	575,000
Capital reserves		<b>1,915,907</b>	1,911,885
Retained earnings		<b>2,613,058</b>	2,213,326
Other components of equity		<b>-134,230</b>	-132,648
Total equity attributable to shareholder of Bank Julius Baer & Co. Ltd.		<b>4,969,735</b>	4,567,563
<b>Total liabilities and equity</b>		<b>90,352,982</b>	91,787,959

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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At 1 January 2016

Net profit

Unrealised gains/(losses)

Realised (gains)/losses reclassified to the income statement

Changes

Total other comprehensive income

Total comprehensive income

Bank Julius Baer & Co. Ltd. dividend payment

Bank Julius Baer & Co. Ltd. extraordinary dividend payment

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

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At 31 December 2016

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### At 1 January 2017

Net profit

Unrealised gains/(losses)

Realised (gains)/losses reclassified to the income statement

Changes

Total other comprehensive income

Total comprehensive income

Capital contribution<sup>1</sup>

Bank Julius Baer & Co. Ltd. dividend payment

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

---

### At 31 December 2017

<sup>1</sup> In July 2017, the Bank acquired Zurich-based WMPartners Wealth Management Ltd. from its parent company Julius Baer Group Ltd. The transaction was accounted for as a common control transaction, meaning that the book values of the transferred assets and liabilities have not been adjusted. The equity (net asset value) of the acquired company was recognised as addition in the Bank's capital reserves and reflects the capital contribution from the parent.

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD  
**CONSOLIDATED FINANCIAL STATEMENTS**

Share capital CHF 1,000	Capital reserves CHF 1,000	Retained earnings CHF 1,000	Other components of equity		Total equity attributable to shareholder of Bank Julius Baer & Co. Ltd. CHF 1,000
			Financial investments available- for-sale, net of taxes CHF 1,000	Remeasurement of defined benefit obligation CHF 1,000	
575,000	1,911,885	1,912,618	26,272	-210,368	4,215,407
-	-	550,708	-	-	550,708
-	-	-	19,751	-	19,751
-	-	-	3,920	-	3,920
-	-	-	-	27,777	27,777
-	-	-	23,671	27,777	51,448
-	-	550,708	23,671	27,777	602,156
-	-	-100,000	-	-	-100,000
-	-	-150,000	-	-	-150,000
-	-	48,268	-	-	48,268
-	-	-48,268	-	-	-48,268
575,000	1,911,885	2,213,326	49,943	-182,591	4,567,563
<b>575,000</b>	<b>1,911,885</b>	<b>2,213,326</b>	<b>49,943</b>	<b>-182,591</b>	<b>4,567,563</b>
-	-	620,216	-	-	620,216
-	-	-	-11,909	-	-11,909
-	-	-	6,469	-	6,469
-	-	-	-	3,858	3,858
-	-	-	-5,440	3,858	-1,582
-	-	620,216	-5,440	3,858	618,634
-	4,022	-	-	-	4,022
-	-	-220,000	-	-	-220,000
-	-	52,032	-	-	52,032
-	-	-52,516	-	-	-52,516
575,000	1,915,907	2,613,058	44,503	-178,733	4,969,735

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2017 CHF 1,000	2016 CHF 1,000
Net profit	<b>620,216</b>	550,708
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	<b>34,209</b>	31,048
- Amortisation and impairment of intangible assets	<b>89,606</b>	80,042
- Allowance for credit losses	<b>-7,259</b>	11,771
- Deferred tax expense/(benefit)	<b>-12,078</b>	9,679
- Net loss/(gain) from investing activities	<b>59,814</b>	80,124
- Other non-cash income and expenses	<b>52,032</b>	48,268
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	<b>-4,203,946</b>	6,801,769
- Trading portfolios and derivative financial instruments	<b>-4,658,166</b>	602,848
- Net loans/due to customers	<b>-7,692,002</b>	-988,369
- Issuance and repayment of financial liabilities designated at fair value	<b>3,392,281</b>	4,181,358
- Accrued income, prepaid expenses and other assets	<b>-936,092</b>	366,073 <sup>1</sup>
- Accrued expenses, deferred income, other liabilities and provisions	<b>40,742</b>	-699,038
Adjustment for income tax expenses	<b>131,014</b>	105,714
Income taxes paid	<b>-71,872</b>	-53,722
Cash flow from operating activities	<b>-13,161,501</b>	11,128,273
Purchase of property and equipment and intangible assets	<b>-160,725</b>	-165,276
Net (investment in)/divestment of financial investments available-for-sale	<b>4,194,832</b>	-251,317
Cash flow from investing activities	<b>4,034,107</b>	-416,593
Dividend payments	<b>-220,000</b>	-250,000
Distribution to the parent related to share-based payments for the year	<b>-52,516</b>	-48,268 <sup>1</sup>
Cash flow from financing activities	<b>-272,516</b>	-298,268
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>-9,399,910</b>	10,413,412
Cash and cash equivalents at the beginning of the year	<b>28,031,354</b>	17,623,201
Cash flow from operating activities	<b>-13,161,501</b>	6,898,647
Cash flow from investing activities	<b>4,034,107</b>	-416,593
Cash flow from financing activities	<b>-272,516</b>	3,931,358
Effects of exchange rate changes on cash and cash equivalents	<b>145,731</b>	-5,259
<b>Cash and cash equivalents at the end of the year</b>	<b>18,777,175</b>	28,031,354

<sup>1</sup> Payments relating to the pre-financing/re-charge of the share based payment arrangements have been re-classified to financing activities as these transactions are considered similar to transactions with shareholders.



**Cash and cash equivalents are structured as follows:**

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
Cash	<b>8,784,983</b>	11,805,590
Money market instruments	<b>2,191,103</b>	3,654,112
Due from banks (original maturity of less than three months)	<b>7,801,089</b>	12,571,652
<b>Total</b>	<b>18,777,175</b>	28,031,354

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
<b>Additional information</b>		
Interest received	<b>920,559</b>	839,681
Interest paid	<b>-160,745</b>	-128,272
Dividends on equities received	<b>207,160</b>	203,340

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF ACCOUNTING

Bank Julius Baer & Co. Ltd. is a Swiss corporation. All of its shares are owned by Julius Baer Group Ltd., the ultimate parent company of the Julius Baer Group. Bank Julius Baer & Co. Ltd. is the central underwriter for traditional and innovative banking products. The Board of Directors approved these financial statements on 23 February 2018. In addition, they are submitted for approval at the Annual General Meeting on 22 March 2018.

Amounts in the annual consolidated financial statements are stated in Swiss francs. The consolidated financial statements are prepared in accordance with the 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 Bank 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.

#### **Foreign currency translation**

In the individual financial statements of the 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	<b>0.9745</b>	1.0164	<b>0.9795</b>	0.9875
EUR/CHF	<b>1.1702</b>	1.0720	<b>1.1160</b>	1.0890
GBP/CHF	<b>1.3182</b>	1.2559	<b>1.2750</b>	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 Bank 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 Bank 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 Bank's normal credit risk process.

Securities borrowed as well as securities received by the Bank as collateral under securities lending transactions are only recorded in the balance sheet if the Bank 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 Bank as collateral under securities borrowing transactions are only derecognised from the balance sheet if the Bank 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 Bank'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 Bank'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 Bank'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/liabilities designated at fair value through profit or loss**

Financial assets and liabilities may initially be designated 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 Bank 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 Bank reports assets and liabilities related to certain structured investments where 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 Bank 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 Bank. 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 Bank 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 acquirer'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 Bank 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

Bank 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.

#### **Provisions**

A provision is recognised if, as a result of a past event, the Bank 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 Bank is subject to income taxes in several 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 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 Bank 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 Bank 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 Bank.

#### **Share-based payments**

The Bank 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 equity instruments are not remeasured for subsequent changes in the fair value of the underlying instruments.

The Bank applies equity-settled accounting for the services received from its employees, with a corresponding increase recognised in its equity as a contribution from the parent.

#### **Share capital**

The share capital comprises all issued, fully paid shares of Bank Julius Baer & Co. Ltd.

#### **Capital reserves**

Capital reserves represent the additional proceeds (premium) received from the issue of shares by Bank Julius Baer & Co. Ltd. and from the exercise of conversion rights and warrants on Bank Julius Baer & Co. Ltd.

#### **Earnings per share (EPS)**

Basic consolidated earnings per share is calculated by dividing the net profit for the reporting period attributable to shareholders of Bank Julius Baer & Co. Ltd. by the weighted average number of shares outstanding during the reporting period.

#### **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 Bank'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 Bank plans not to adopt these in advance. A number of these changes may have an impact on the Bank's consolidated financial statements, as outlined below.

The following standards, revisions and interpretations will be relevant to the Bank:

### **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 Bank finalised its assessment of the impact of IFRS 9 on the Bank'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 Bank 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 Bank 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 Bank'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 6.5 million;
- Mortgage portfolio: CHF 2.6 million; and
- Due from banks: CHF 0.3 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 4.0 million between the currently recognised collective allowance for credit losses (CHF 13.4 million) and the new expected credit losses under IFRS 9 (CHF 9.4 million) will be recognised in equity (retained earnings) at transition date.

The Bank 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 11.0 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 Bank does not recognise any allowance for its treasury portfolio in 2017. Therefore, the new allowance for credit losses in the amount of CHF 1.6 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 Bank will continue to apply its current measurement approach, including the use of the fair value option. No material changes arise.

*Hedge accounting:* The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank did not early apply IFRS 15. The impact of the new standard on the Bank'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 Bank does not intend to early apply IFRS 16. The impact of the new standard on the Bank'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 Bank 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 purpose 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 our 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 and thus also of the principal operating entity Bank Julius Baer & Co. Ltd. The tight organisational as well as commercial relationship between the Group and the Bank makes the risk management principles explained herein analogous to the risk management principles 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 all risks except for operational risks to the Chairman's & Risk Committee. Its responsibilities principally include:

- setting the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profiles formulated by the Board of Directors of Julius Baer Group Ltd. or other relevant supervisory or managing bodies;
- the determination, coordination and review of risk limits;
- reviewing policies with regard to risks other than operational risk (including legal and regulatory risks);
- authorising, taking into consideration the respective risk parameters, certain market, credit and financial transactions, including in particular loans granted to members of the Board of Directors and of the Executive Board and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for setting the standards and methods applied to the control of operational risk (including legal and regulatory risks) in order to ensure compliance with the principles and risk profiles formulated by the Board of Directors or other relevant supervisory or managing bodies. The Audit Committee is also responsible for reviewing the operational risk directives.

The Executive Board of the Bank is responsible for measuring and supervising market, liquidity, financing and operational risks. 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 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 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 the Bank 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.

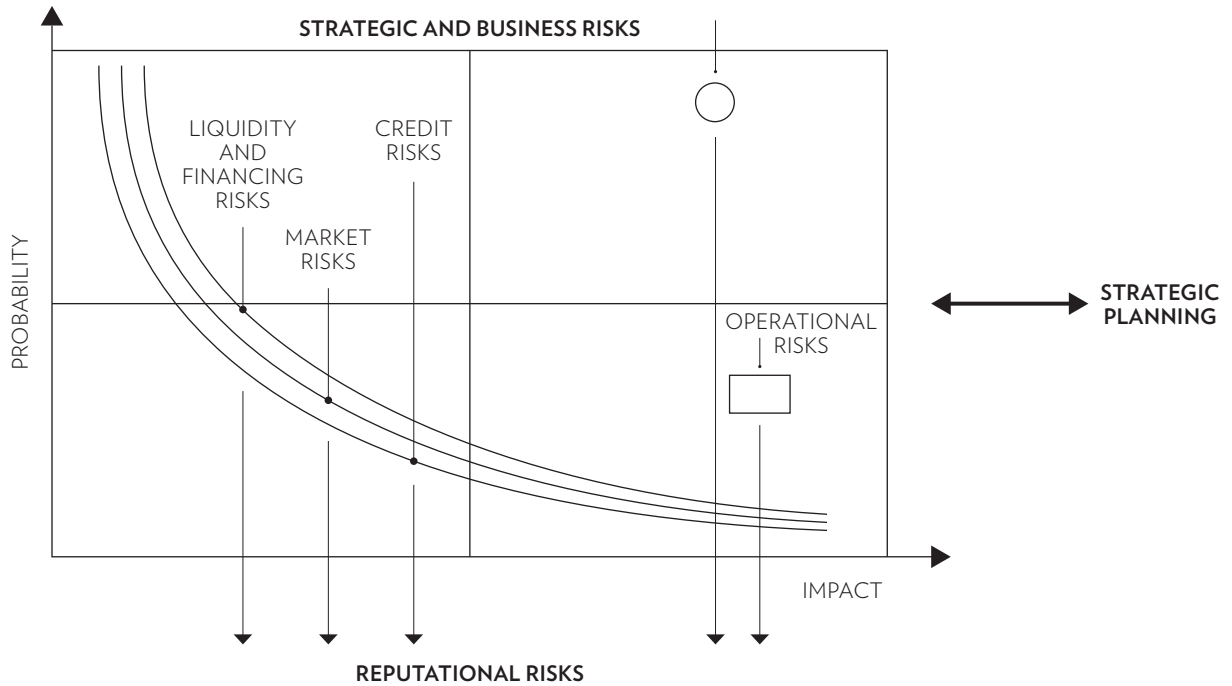
The main responsibility for controlling and managing risks, however, primarily lies with the individual organisational units. Identified risks are mapped to a risk landscape, which provides a consolidated picture of the probability of their occurrence and its potential impact. The risk landscape is also used by the business areas, the Executive Board and the Board of Directors 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 Bank. Such non-compliance may result in a financial loss to the Bank.

The Bank has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Bank as a result of such transactions may arise from lending or from actual or potential receivables due to the Bank 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, client’s 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 value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Bank’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, the Bank tends to assign comparatively low mortgage values and adopt a relatively conservative approach to mortgage risk.

In addition, the Bank 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 Bank 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 Bank's consolidated credit exposure, both on a single-counterparty and a counterparty-bank 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 Bank's risk capacity and the applicable regulatory limits

The Bank 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 Bank 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 Bank 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 Bank holds cash collateral for the majority of the counterparty risk arising from its open derivatives positions. The Bank's securities lending business policies explicitly prohibit transactions involving correlation risk.

The Bank 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 Bank to engage in corporate lending activities except for collateralised lending to corporate structures linked to its core private banking business.

The Bank'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.

Bank 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 platform 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](http://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

						<b>31.12.2017</b>
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	<b>Total CHF m</b>
Due from banks	4,474	2,165	455	1,106	40	<b>8,240</b>
Loans	9,942	11,962	10,662	8,901	902	<b>42,369</b>
Financial assets designated at fair value	266	-	-	-	-	<b>266</b>
Financial investments available-for-sale	202	4,190	4,191	2,380	904	<b>11,867</b>
Derivative financial instruments	879	1,075	581	246	46	<b>2,827</b>
Contingent liabilities	104	441	310	93	25	<b>973</b>
Irrevocable commitments	181	82	59	15	1	<b>338</b>
Securities lending and repo transactions	1,004	2,268	62	-	2	<b>3,336</b>
<b>Total</b>	<b>17,052</b>	<b>22,183</b>	<b>16,320</b>	<b>12,741</b>	<b>1,920</b>	<b>70,216</b>

						31.12.2016
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	6,086	5,829	462	1,371	3	13,751
Loans	9,921	9,144	7,854	7,493	395	34,807
Financial assets designated at fair value	-	158	94	-	-	252
Financial investments available-for-sale	332	6,909	6,812	3,807	46	17,906
Derivative financial instruments	2,082	786	453	240	4	3,565
Contingent liabilities	103	269	144	62	14	592
Irrevocable commitments	212	116	52	20	-	400
Securities lending and repo transactions	856	2,912	445	46	3	4,262
<b>Total</b>	<b>19,592</b>	<b>26,123</b>	<b>16,316</b>	<b>13,039</b>	<b>465</b>	<b>75,535</b>

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 Bank which are reported in 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

	<b>31.12.2017</b>				
	Governments and agencies <i>CHF m</i>	Financial institutions <i>CHF m</i>	Private clients <i>CHF m</i>	Other <i>CHF m</i>	<b>Total <i>CHF m</i></b>
Due from banks	12	8,166	-	62	<b>8,240</b>
Loans	431	15,126	15,319	11,493	<b>42,369</b>
Financial assets designated at fair value	-	266	-	-	<b>266</b>
Financial investments available-for-sale	3,898	6,911	-	1,058	<b>11,867</b>
Derivative financial instruments	49	1,814	541	423	<b>2,827</b>
Contingent liabilities	15	389	396	173	<b>973</b>
Irrevocable commitments	5	245	65	23	<b>338</b>
Securities lending and repo transactions	-	3,330	4	2	<b>3,336</b>
<b>Total</b>	<b>4,410</b>	<b>36,247</b>	<b>16,325</b>	<b>13,234</b>	<b>70,216</b>

	31.12.2016				
	Governments and agencies <i>CHF m</i>	Financial institutions <i>CHF m</i>	Private clients <i>CHF m</i>	Other <i>CHF m</i>	Total <i>CHF m</i>
Due from banks	-	13,751	-	-	13,751
Loans	578	5,064	22,023	7,142	34,807
Financial assets designated at fair value	-	252	-	-	252
Financial investments available-for-sale	6,181	7,377	-	4,348	17,906
Derivative financial instruments	60	1,192	2,021	292	3,565
Contingent liabilities	8	126	336	122	592
Irrevocable commitments	44	110	208	38	400
Securities lending and repo transactions	700	3,075	51	436	4,262
<b>Total</b>	<b>7,571</b>	<b>30,947</b>	<b>24,639</b>	<b>12,378</b>	<b>75,535</b>

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 Bank'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 Bank'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

	<b>31.12.2017</b>		
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	<b>Total CHF m</b>
Due from banks	5,890	2,350	<b>8,240</b>
Loans	38,014	4,355	<b>42,369</b>
Financial assets designated at fair value	266	-	<b>266</b>
Financial investments available-for-sale	-	11,867	<b>11,867</b>
Derivative financial instruments	1,802	1,025	<b>2,827</b>
Contingent liabilities	885	88	<b>973</b>
Irrevocable commitments	204	134	<b>338</b>
Securities lending and repo transactions	2,592	744	<b>3,336</b>
<b>Total</b>	<b>49,653</b>	<b>20,563</b>	<b>70,216</b>

	31.12.2016		
	Secured by recognised financial collaterals <sup>1</sup> CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	9,087	4,664	13,751
Loans	32,427	2,380	34,807
Financial assets designated at fair value	-	252	252
Financial investments available-for-sale	-	17,906	17,906
Derivative financial instruments	1,583	1,982	3,565
Contingent liabilities	526	66	592
Irrevocable commitments	195	205	400
Securities lending and repo transactions	3,466	796	4,262
<b>Total</b>	<b>47,284</b>	<b>28,251</b>	<b>75,535</b>

<sup>1</sup> 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							Total CHF m
	0% CHF m	20% CHF m	35% CHF m	50% CHF m	75% CHF m	100% CHF m	150% or greater CHF m	
Due from banks	4,963	2,767	-	507	-	3	-	<b>8,240</b>
Loans	31,160	30	5,849	10	542	4,778	-	<b>42,369</b>
Financial assets designated at fair value	266	-	-	-	-	-	-	<b>266</b>
Financial investments available-for-sale	3,550	4,730	-	3,491	-	63	33	<b>11,867</b>
Derivative financial instruments	1,801	622	-	219	25	160	-	<b>2,827</b>
Contingent liabilities	885	7	-	15	14	52	-	<b>973</b>
Irrevocable commitments	204	28	-	-	7	99	-	<b>338</b>
Securities lending and repo transactions	2,592	662	-	-	-	82	-	<b>3,336</b>
<b>Total</b>	<b>45,421</b>	<b>8,846</b>	<b>5,849</b>	<b>4,242</b>	<b>588</b>	<b>5,237</b>	<b>33</b>	<b>70,216</b>

	31.12.2016							Total CHF m
	0% CHF m	20% CHF m	35% CHF m	50% CHF m	75% CHF m	100% CHF m	150% or greater CHF m	
Due from banks	9,087	3,776	-	854	-	29	5	13,751
Loans	24,532	12	6,090	266	524	3,379	4	34,807
Financial assets designated at fair value	252	-	-	-	-	-	-	252
Financial investments available-for-sale	4,746	6,547	-	6,295	-	282	36	17,906
Derivative financial instruments	1,582	1,468	-	336	2	177	-	3,565
Contingent liabilities	526	26	-	8	-	32	-	592
Irrevocable commitments	195	31	-	89	-	85	-	400
Securities lending and repo transactions	3,466	592	-	-	-	204	-	4,262
<b>Total</b>	<b>44,386</b>	<b>12,452</b>	<b>6,090</b>	<b>7,848</b>	<b>526</b>	<b>4,188</b>	<b>45</b>	<b>75,535</b>

### 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	8,240.1	8,299.4	-59.3	reverse repurchase transactions of CHF 59.3 million deducted
Loans	42,369.2	42,369.2	-	
Financial assets designated at fair value	265.6	265.6	-	
Financial investments available-for-sale	11,866.5	11,988.3	-121.8	unrealised gains deducted under BIS approach (CHF 121.8 million)
Derivative financial instruments	2,827.5	1,917.8	909.7	
<i>of which security supplement (add-ons)</i>			2,507.0	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-1,597.3	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2017</b>	<b>65,568.9</b>	<b>64,840.3</b>	<b>728.6</b>	

**Comments to off-balance sheet positions**

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	972.8	1,172.3 <sup>1</sup>	-199.5	converted in credit equivalent
Irrevocable commitments	338.3	689.4 <sup>1</sup>	-351.1	converted in credit equivalent
Securities lending and repo transactions	3,335.7	3,077.4	258.3	including risk premium
<b>Total 31.12.2017</b>	<b>4,646.8</b>			

<sup>1</sup> These amounts reflect the maximum payments the Bank is committed to making.

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD. 2017  
COMMENT ON RISK AND CAPITAL MANAGEMENT

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	13,750.7	13,768.3	-17.6	reverse repurchase transactions of CHF 17.6 million deducted
Loans	34,806.9	34,806.9	-	
Financial assets designated at fair value	252.4	252.4	-	
Financial investments available-for-sale	17,906.2	17,854.7	51.5	unrealised gains deducted under BIS approach (CHF 129.5 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 181.0 million)
Derivative financial instruments	3,565.0	2,644.1	920.9	
<i>of which security supplement (add-ons)</i>			1,585.2	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-664.3	<i>impact of netting rules under BIS approach</i>
<b>Total 31.12.2016</b>	<b>70,281.2</b>	<b>69,326.4</b>	<b>954.8</b>	

Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	591.8	1,183.5 <sup>1</sup>	-591.7	converted in credit equivalent
Irrevocable commitments	399.5	809.2 <sup>1</sup>	-409.7	converted in credit equivalent
Securities lending and repo transactions	4,262.3	3,961.7	300.6	including risk premium
<b>Total 31.12.2016</b>	<b>5,253.6</b>			

<sup>1</sup> These amounts reflect the maximum payments the Bank is committed to making.



The following table provides an analysis of the Bank'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 Bank'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 relates 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 Bank's investment and treasury books. Exposures 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	46,577.1	39,060.2	25,218.2	34,447.8
Past due but not impaired	-	9.4	-	-
Impaired	30.1	68.2	-	-
<b>Total</b>	<b>46,607.2</b>	<b>39,137.8</b>	<b>25,218.2</b>	<b>34,447.8</b>

### Neither past due nor impaired

R1 to R3	40,263.5	33,374.1	24,716.0	33,250.4
R4 to R6 (including temporarily unrated)	6,313.6	5,686.1	502.2	1,197.4
<b>Total</b>	<b>46,577.1</b>	<b>39,060.2</b>	<b>25,218.2</b>	<b>34,447.8</b>
<i>Collateral held or credit enhancement available</i>	<b>193,279.5</b>	162,327.6	-	-

### Past due but not impaired

R7	-	9.4	-	-
<b>Total</b>	<b>-</b>	<b>9.4</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	-	9.3	-	-

### Impaired

R8	19.4	24.3	-	-
R9 to R10	10.7	43.9	-	-
<b>Total</b>	<b>30.1</b>	<b>68.2</b>	<b>-</b>	<b>-</b>
<i>Collateral held or credit enhancement available</i>	<b>29.9</b>	21.2	-	-

### Allowances for credit losses<sup>1</sup>

Specific allowance for credit losses	17.2	49.2	-	-
Collective allowance for credit losses	12.0 <sup>2</sup>	23.1	1.4	1.2
<b>Total</b>	<b>29.2</b>	<b>72.3</b>	<b>1.4</b>	<b>1.2</b>

<sup>1</sup> 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.

<sup>2</sup> 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 Bank'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**

	<b>31.12.2017</b>	31.12.2016
	Gross maximum exposure CHF m	Gross maximum exposure CHF m
Cash (excluding cash on hand)	<b>8,760.2</b>	11,778.6
Due from banks	<b>8,298.0</b>	13,768.3
Loans	<b>42,369.2</b>	34,806.9
Trading assets	<b>2,274.4</b>	1,416.1
Derivative financial instruments	<b>1,917.8</b>	2,644.1
Financial assets designated at fair value	<b>265.6</b>	252.4
Financial investments available-for-sale	<b>11,855.8</b>	17,732.0
Accrued income	<b>236.4</b>	218.1
Other assets	<b>9.8</b>	7.0
<b>Total</b>	<b>75,987.2</b>	82,623.5
<b>Off-balance sheet</b>		
Irrevocable commitments <sup>1</sup>	<b>689.4</b>	809.2
<b>Total maximum exposure to credit risk</b>	<b>76,676.6</b>	83,432.7

<sup>1</sup> These amounts reflect the maximum payments the Bank 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 Bank 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 the 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 the Group entities have a functional reporting line

to the central market risk unit at Head Office to assure global risk aggregation and application of Group standards in all Group entities.

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 Chairman's & Risk 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 the market 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**

The 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

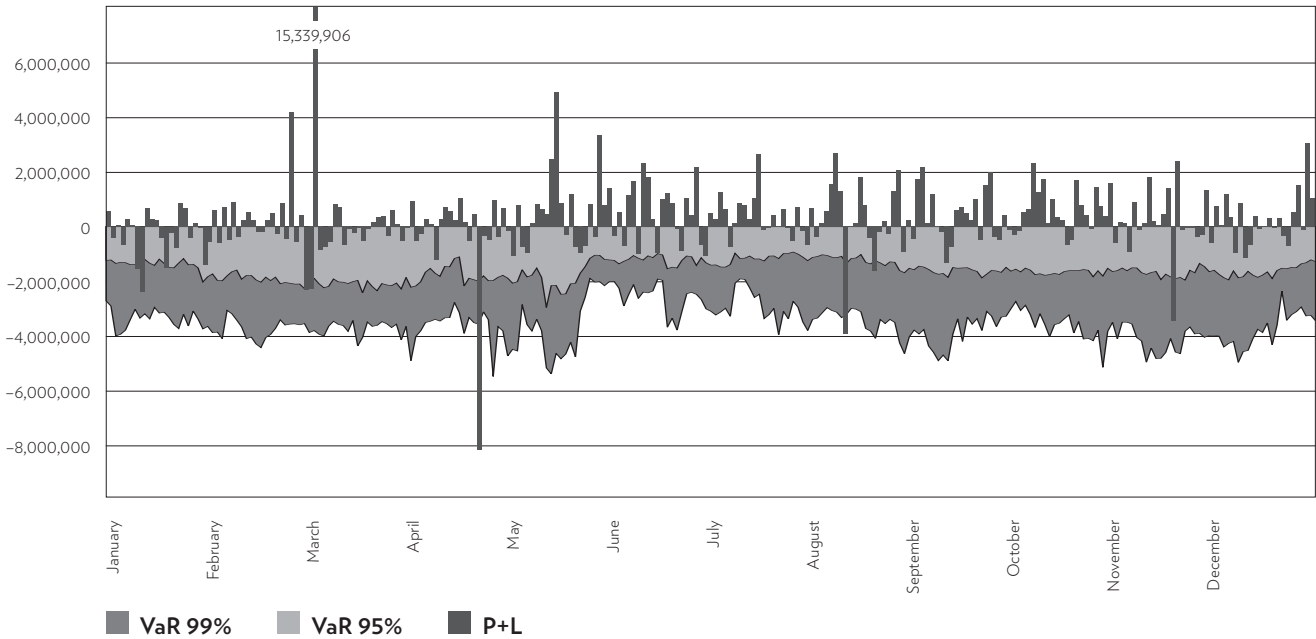
or expected differences between the opening and closing price of proprietary positions, with the intention of benefiting from arbitrage profits, or with the intention of hedging risks from positions meeting aforementioned criteria.

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**

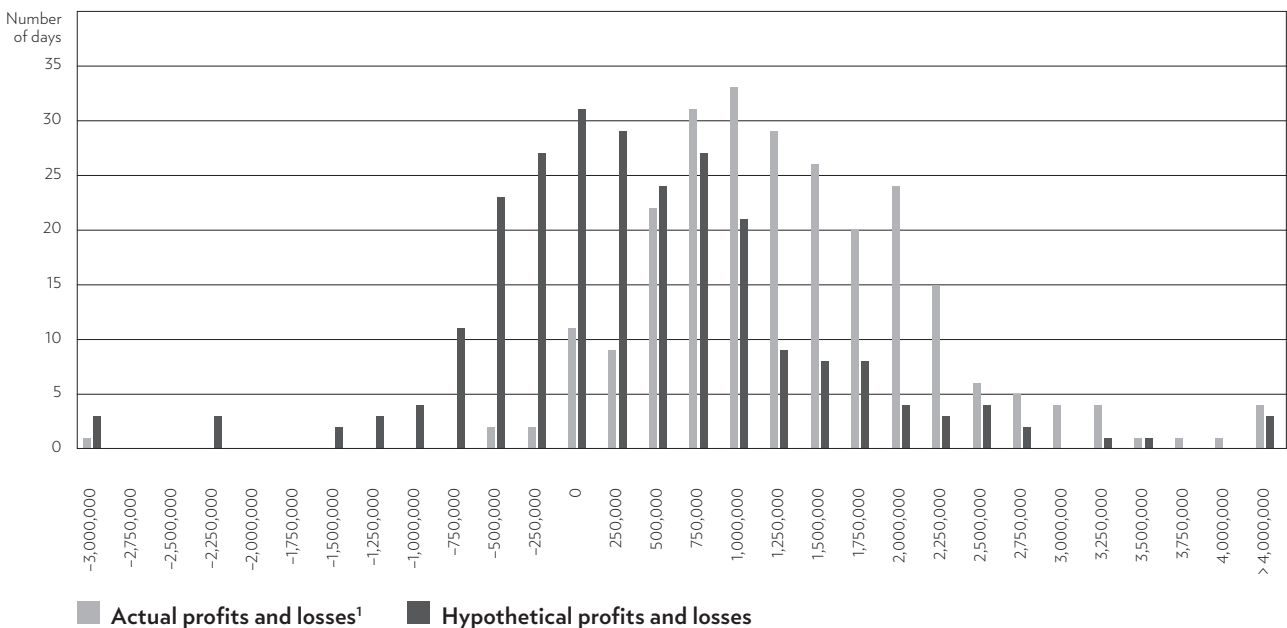
The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis-point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the 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 Bank 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 could 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 Bank Julius Baer 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 Bank. To ensure comparability, pure commission income has been removed from these income statement results.

**Distribution of daily revenues from trading activities of Bank Julius Baer for 2017 (CHF)**



<sup>1</sup> 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 12-month period contained no back-testing excession. 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 Bank'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 no back-testing excessions to report for the 12 months to 31 December 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 website [www.juliusbaer.com](http://www.juliusbaer.com) (this will be available at the end of April 2018).

Given the limited materiality of the positions concerned, the specific risk of the Bank'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 Bank's trading portfolios:

**Market risk – VaR positions by risk type**

	At 31 December CHF 1,000	Average CHF 1,000	Maximum CHF 1,000	2017 Minimum CHF 1,000
Equities	-280	-1,245	-2,388	-280
Interest rates	-624	-704	-901	-559
Foreign exchange/precious metals	-165	-641	-2,730	-1
Effects of correlation	39			
<b>Total</b>	<b>-1,030</b>	<b>-1,595</b>	<b>-2,947</b>	<b>-926</b>

	At 31 December CHF 1,000	Average CHF 1,000	Maximum CHF 1,000	2016 Minimum CHF 1,000
Equities	-912	-774	-1,821	-75
Interest rates	-808	-759	-1,282	-171
Foreign exchange/precious metals	-415	-849	-1,718	-272
Effects of correlation	907			
<b>Total</b>	<b>-1,228</b>	<b>-1,289</b>	<b>-2,188</b>	<b>-701</b>

## FINANCING, LIQUIDITY AND INTEREST RATE RISKS IN THE BANKING BOOK

Financing risk is the risk of the Bank being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Bank 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 Bank's assets and liabilities.

### Governance

The Treasury department manages the financing, liquidity and interest rate risks on an integrated basis. 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 risk 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 the Bank 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' banking books. The system supports the calculation of the usual interest-rate-risk and liquidity-stress metrics. These results are analysed on a daily basis and limit controls are carried out. Any breach of these limits is investigated in a timely fashion.

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 liquidity risk management is to maintain a healthy liquidity position which enables the Bank 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 Bank'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 Bank 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 Bank's LCR fluctuated between 83.7% and 164.4%, 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](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

In managing its financing risks, the Bank aims to ensure that it has access to appropriate sources of financing at all times. At present, the Bank's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Bank would, however, quickly be able to access additional sources of refinancing at any time.

The Bank'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 Bank carries out most of its activities are currently close to zero.

### Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF 1,000
<b>Interest sensitivity by time bands and 100 bp parallel increase</b>						
<b>CHF</b>						
<b>2017</b>	<b>3,729</b>	<b>-4,025</b>	<b>36,032</b>	<b>59,118</b>	<b>-53,055</b>	<b>41,799</b>
2016	3,160	-4,847	33,772	62,799	-42,532	52,352
<b>USD</b>						
<b>2017</b>	<b>10,877</b>	<b>-2,123</b>	<b>-951</b>	<b>-44,772</b>	<b>14,267</b>	<b>-22,702</b>
2016	10,999	-3,479	-4,607	-138,773	-799	-136,659
<b>EUR</b>						
<b>2017</b>	<b>7,423</b>	<b>-1,815</b>	<b>-1,801</b>	<b>43,576</b>	<b>-5,922</b>	<b>41,461</b>
2016	5,964	-3,413	-3,963	33,576	-2,656	29,508
<b>Other</b>						
<b>2017</b>	<b>1,618</b>	<b>-2,350</b>	<b>-124</b>	<b>28,092</b>	<b>-66</b>	<b>27,170</b>
2016	2,509	-1,588	-6,870	24,826	44	18,921

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 Bank took no mitigating action, the modelled effect on interest earnings would have been CHF -125.4 million at the end of 2017 (2016: CHF -175.0 million).

### Hedging interest rate risks

The Bank 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 Bank 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 amounts to CHF 32.6 million (2016: CHF 58.0 million).

The following table shows an analysis of the Bank'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
<b>Financial assets</b>						
Cash	8,785.0	-	-	-	-	<b>8,785.0</b>
Due from banks	-	7,858.9	196.7	197.4	45.0	<b>8,298.0</b>
Loans	-	35,324.7	3,176.7	2,586.1	1,281.7	<b>42,369.2</b>
Trading assets	12,857.6	-	-	-	-	<b>12,857.6</b>
Derivative financial instruments	1,917.8	-	-	-	-	<b>1,917.8</b>
Financial assets designated at fair value	265.6	-	-	-	-	<b>265.6</b>
Financial investments available-for-sale	-	1,671.5	1,474.3	8,137.2	705.3	<b>11,988.3</b>
Accrued income	-	236.4	-	-	-	<b>236.4</b>
<b>Total 31.12.2017</b>	<b>23,826.0</b>	<b>45,091.5</b>	<b>4,847.7</b>	<b>10,920.7</b>	<b>2,032.0</b>	<b>86,717.9</b>
Total 31.12.2016	22,459.0	44,894.3	6,094.0	13,652.1	2,007.7	89,107.1
<b>Financial liabilities</b>						
Due to banks	-	9,333.5	7.2	-	2.4	<b>9,343.1</b>
Due to customers	-	59,310.7	288.4	1,039.9	489.7	<b>61,128.7</b>
Trading liabilities	135.8	-	-	-	-	<b>135.8</b>
Derivative financial instruments	1,993.7	-	-	-	-	<b>1,993.7</b>
Financial liabilities designated at fair value	2,130.1	5,302.5	2,433.4	1,510.8	459.9	<b>11,836.7</b>
Accrued expenses	-	149.0	-	-	-	<b>149.0</b>
<b>Total 31.12.2017</b>	<b>4,259.6</b>	<b>74,095.7</b>	<b>2,729.0</b>	<b>2,550.7</b>	<b>952.0</b>	<b>84,587.0</b>
Total 31.12.2016	3,271.2	78,453.0	2,223.5	1,957.2	599.6	86,504.5

The following table shows an analysis of the Bank'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 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 Bank.

#### 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
<b>Financial liabilities recognised on balance sheet</b>						
Due to banks	7,040.1	2,293.9	7.4	-	2.4	<b>9,343.8</b>
Due to customers	49,116.2	10,153.1	385.3	1,153.9	502.2	<b>61,310.7</b>
Trading liabilities	135.8	-	-	-	-	<b>135.8</b>
Derivative financial instruments	1,945.8	-	0.6	25.9	21.4	<b>1,993.7</b>
Financial liabilities designated at fair value	2,130.1	5,343.4	2,506.3	1,535.0	459.9	<b>11,974.7</b>
Accrued expenses	-	149.0	-	-	-	<b>149.0</b>
<b>Total 31.12.2017</b>	<b>60,368.0</b>	<b>17,939.4</b>	<b>2,899.6</b>	<b>2,714.8</b>	<b>985.9</b>	<b>84,907.7</b>
Due to banks	10,076.2	4,169.8	1.3	-	2.2	14,249.5
Due to customers	52,354.5	7,756.4	177.3	910.0	228.6	61,426.8
Trading liabilities	159.0	-	-	-	-	159.0
Derivative financial instruments	2,169.3	-	0.6	20.5	50.8	2,241.2
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	8,528.9
Accrued expenses	-	146.0	-	-	-	146.0
Total 31.12.2016	65,630.1	16,058.9	2,305.1	2,104.8	652.5	86,751.4
<b>Financial liabilities not recognised on balance sheet</b>						
Irrevocable commitments <sup>1</sup>	633.8	2.3	37.0	16.3	-	<b>689.4</b>
<b>Total 31.12.2017</b>	<b>633.8</b>	<b>2.3</b>	<b>37.0</b>	<b>16.3</b>	<b>-</b>	<b>689.4</b>
Total 31.12.2016	785.4	14.2	2.7	6.9	-	809.2

<sup>1</sup> These amounts reflect the maximum payments the Bank is committed to making.

Exposures to risks, in addition to interest rate and liquidity risks, arising from positions held by the Bank 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 the Bank. Currency risks on the

banking book are transferred to the trading book. The balance sheets of the Bank are managed in local currency and the Bank companies are only allowed to take on exchange-rate exposure against their local currency in exceptional circumstances. Where they occur, these exposures are limited and measured according to individual balance-sheet-management

guidelines and are also included in the Bank's VaR calculations. The local-currency shareholders' equity of these Bank entities are not hedged against exchange-rate risk at Bank 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 are 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 Bank's reputation and to minimise any financial loss to clients, the Bank 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 Bank 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 Bank 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 Bank 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 risks. 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 Bank 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 policies 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 Bank 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 Bank 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 Bank's reputation and thus impair its franchise. The Bank's ability to conduct its business is critically dependent on the reputation it has established in the course of its more than 125 years. Maintaining its good reputation is therefore vitally important for the Bank, 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 Bank's and the Group's reputation.

## MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL

For information about capital management including regulatory capital, refer to the separate section in the Annual Report 2017 of Julius Baer Group Ltd.

## INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

### 1 NET INTEREST AND DIVIDEND INCOME

	2017 CHF 1,000	2016 CHF 1,000	Change %
Interest income on amounts due from banks	40,952	41,581	-1.5
Interest income on loans	597,798	466,832	28.1
Interest income on financial investments available-for-sale	243,643	247,550	-1.6
Total interest income using the effective interest method	882,393	755,963	16.7
Dividend income on financial investments available-for-sale	6,764	7,283	-7.1
Interest income on trading portfolios	31,777	29,784	6.7
Dividend income on trading portfolios	200,396	196,057	2.2
Total interest and dividend income	1,121,330	989,087	13.4
Interest expense on amounts due to banks	29,153	11,190	160.5
Interest expense on amounts due to customers	133,667	83,731	59.6
Interest expense on financial assets <sup>1</sup>	13,165	36,099	-63.5
Total interest expense using the effective interest method	175,985	131,020	34.3
<b>Total</b>	<b>945,345</b>	<b>858,067</b>	<b>10.2</b>

<sup>1</sup> Interest expense on financial assets is related to negative effective interests on the respective financial instruments.

### 2 NET COMMISSION AND FEE INCOME

	2017 CHF 1,000	2016 CHF 1,000	Change %
Advisory and management fees	1,006,525	908,238	10.8
Brokerage commissions and income from securities underwriting	608,621	479,832	26.8
Commission income credit-related activities	5,567	7,048	-21.0
Commission and fee income on other services	117,384	111,076	5.7
Total commission and fee income from asset management	1,738,097	1,506,194	15.4
Commission expense	445,723	390,443	14.2
<b>Total</b>	<b>1,292,374</b>	<b>1,115,751</b>	<b>15.8</b>

### 3 NET TRADING INCOME

	2017 CHF 1,000	2016 CHF 1,000	Change %
Debt instruments	74,995	50,483	48.6
Equity instruments	-145,862	-169,424	13.9
Foreign exchange	348,688	435,831	-20.0
<b>Total</b>	<b>277,821</b>	<b>316,890</b>	<b>-12.3</b>

#### 4 OTHER ORDINARY RESULTS

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	<b>6,736</b>	9,528	-29.3
Impairment on financial investments available-for-sale	-	-1,866	100.0
Real estate income	<b>5,879</b>	5,872	0.1
Other ordinary income	<b>15,625</b>	24,374	-35.9
Other ordinary expenses	-	479	-100
<b>Total</b>	<b>28,240</b>	37,429	-24.6

#### 5 PERSONNEL EXPENSES

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change %
Salaries and bonuses	<b>883,453</b>	852,508	3.6
Contributions to staff pension plans (defined benefits)	<b>69,939</b>	11,174 <sup>1</sup>	525.9
Contributions to staff pension plans (defined contributions)	<b>19,442</b>	17,883	8.7
Other social security contributions	<b>66,142</b>	64,048	3.3
Share-based payments	<b>52,032</b>	48,268	7.8
Other personnel expenses	<b>23,488</b>	14,258	64.7
<b>Total</b>	<b>1,114,496</b>	1,008,139	10.5

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 61.5 million, see Note 20.



## 6 GENERAL EXPENSES

	2017 CHF 1,000	2016 CHF 1,000	Change %
Occupancy expense	68,202	64,643	5.5
IT and other equipment expense	63,314	60,868	4.0
Information, communication and advertising expense	152,287	146,669	3.8
Service expense, fees and taxes	268,345	252,967	6.1
Valuation allowances, provisions and losses	12,700	16,427	-22.7
Other general expenses	1,469	1,233	19.1
<b>Total</b>	<b>566,317</b>	<b>542,807</b>	<b>4.3</b>

## 7 INCOME TAXES

	2017 CHF 1,000	2016 CHF 1,000	Change %
Income tax on profit before taxes (expected tax expense)	162,775	146,542	11.1
Effect of tax rate differences in foreign jurisdictions	-15,276	-11,970	-
Effect of domestic tax rate differences	-3,785	-3,738	-
Income subject to a reduced tax rate	-19,165	-23,033	-
Effect from unrecognised tax losses	-5,182	2,295	-
Adjustments related to prior years	-13,587	-2,227	-
Non-deductible expenses	12,913	7,321	-
Other	243	203	-
<b>Actual income tax expense</b>	<b>118,936</b>	<b>115,393</b>	<b>-</b>

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

Unrecognised accumulated loss carryforwards in the amount of CHF 28.3 million (2016: CHF 59.7 million) exist in the Bank that do not expire.

The Bank 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 1,000	2016 CHF 1,000	Change %
Domestic income taxes	106,351	106,088	0.2
Foreign income taxes	12,585	9,305	35.2
<b>Total</b>	<b>118,936</b>	<b>115,393</b>	<b>3.1</b>
Current income taxes	131,014	105,714	23.9
Deferred income taxes	-12,078	9,679	-
<b>Total</b>	<b>118,936</b>	<b>115,393</b>	<b>3.1</b>

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

	<b>2017</b>		
	Before-tax amount <i>CHF 1,000</i>	Tax (expense)/ benefit <i>CHF 1,000</i>	Net of tax amount <i>CHF 1,000</i>
<b>Items that may be reclassified to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	-10,414	-1,495	-11,909
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	6,730	-261	6,469
<b>Items that will not be reclassified to the income statement</b>			
Remeasurement of defined benefit obligation	4,946	-1,088	3,858
<b>Other comprehensive income</b>	<b>1,262</b>	<b>-2,844</b>	<b>-1,582</b>
	2016		
	Before-tax amount <i>CHF 1,000</i>	Tax (expense)/ benefit <i>CHF 1,000 restated</i>	Net of tax amount <i>CHF 1,000</i>
<b>Items that may be reclassified subsequently to the income statement</b>			
Net unrealised gains/(losses) on financial investments available-for-sale	29,042	-9,291	19,751
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	4,261	-341	3,920
Remeasurement of defined benefit obligation	35,612	-7,835	27,777
Other comprehensive income	68,915	-17,467	51,448

## 8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2017	2016
<b>Basic earnings per share</b>		
Net profit (CHF 1,000)	<b>620,216</b>	550,708
Weighted average number of shares outstanding	<b>5,750,000</b>	5,750,000
Basic earnings per share (CHF)	<b>107.86</b>	95.78
	<b>31.12.2017</b>	31.12.2016
<b>Shares outstanding</b>		
Total shares issued (par value CHF 100)	<b>5,750,000</b>	5,750,000
	<b>31.12.2017</b>	31.12.2016
<b>Share capital</b>		
Total share capital outstanding (CHF 1,000)	<b>575,000</b>	575,000

There are no dilutive effects.

There is no authorised share capital.

## INFORMATION ON THE CONSOLIDATED BALANCE SHEET

### 9A DUE FROM BANKS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
Due from banks	<b>8,299,401</b>	13,769,510	-5,470,109
Allowance for credit losses	<b>-1,415</b>	-1,206	-209
<b>Total</b>	<b>8,297,986</b>	13,768,304	-5,470,318

Due from banks by type of collateral:

Securities collateral	<b>401,491</b>	450,653	-49,162
Without collateral	<b>7,896,495</b>	13,317,651	-5,421,156
<b>Total</b>	<b>8,297,986</b>	13,768,304	-5,470,318

### 9B LOANS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
Lombard loans	<b>34,960,454</b>	27,358,403	7,602,051
Mortgages	<b>7,431,707</b>	7,514,242	-82,535
Subtotal	<b>42,392,161</b>	34,872,645	7,519,516
Allowance for credit losses	<b>-22,963</b>	-65,735	42,772
<b>Total</b>	<b>42,369,198</b>	34,806,910	7,562,288

Lombard loans by type of collateral:

Securities collateral	<b>26,323,415</b>	20,740,475	5,582,940
Mortgage collateral	<b>7,518,354</b>	7,528,687	-10,333
Other collateral (mainly cash and fiduciary deposits)	<b>8,445,285</b>	6,475,172	1,970,113
Without collateral	<b>82,144</b>	62,576	19,568
<b>Total</b>	<b>42,369,198</b>	34,806,910	7,562,288

## 9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF 1,000	2017 Collective CHF 1,000	Specific CHF 1,000	2016 Collective CHF 1,000
Balance at the beginning of the year	<b>42,646</b>	<b>24,295</b>	57,487	24,249
Write-offs	<b>-34,380</b>	-	-26,975	-
Increase in allowance for credit losses	<b>4,431</b>	<b>209</b>	11,781	3,100
Decrease in allowance for credit losses	<b>-792</b>	<b>-11,107<sup>1</sup></b>	-56	-3,054
Translation differences and other adjustments	<b>-924</b>	-	409	-
<b>Balance at the end of the year</b>	<b>10,981</b>	<b>13,397</b>	42,646	24,295

<sup>1</sup> 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 1,000	31.12.2016 CHF 1,000	Change CHF 1,000
Gross loans	<b>23,857</b>	58,224	-34,367
Specific allowance for credit losses	<b>-10,981</b>	-42,646	31,665
<b>Net loans</b>	<b>12,876</b>	15,578	-2,702

## 10 TRADING ASSETS AND LIABILITIES

	<b>31.12.2017</b> CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000
<b>Trading assets</b>			
Debt instruments	<b>2,274,439</b>	1,416,096	858,343
<i>of which quoted</i>	<b>1,932,769</b>	1,338,560	594,209
<i>of which unquoted</i>	<b>341,670</b>	77,536	264,134
Equity instruments	<b>9,087,205</b>	5,942,002	3,145,203
<i>of which quoted</i>	<b>7,093,640</b>	5,561,164	1,532,476
<i>of which unquoted</i>	<b>1,993,565</b>	380,838	1,612,727
Precious metals (physical)	<b>1,495,926</b>	398,844	1,097,082
<b>Total</b>	<b>12,857,570</b>	7,756,942	5,100,628
<b>Trading liabilities</b>			
Short positions - debt	<b>9,365</b>	47,955	-38,590
<i>of which quoted</i>	<b>9,365</b>	44,723	-35,358
<i>of which unquoted</i>	-	3,232	-3,232
Short positions - equity	<b>126,466</b>	110,998	15,468
<i>of which quoted</i>	<b>82,443</b>	95,964	-13,521
<i>of which unquoted</i>	<b>44,023</b>	15,034	28,989
<b>Total</b>	<b>135,831</b>	158,953	-23,122

### 11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
<b>Money market instruments</b>	<b>2,191,103</b>	3,654,112	-1,463,009
Government and agency bonds	<b>2,258,669</b>	3,380,889	-1,122,220
Financial institution bonds	<b>3,969,355</b>	6,170,538	-2,201,183
Corporate bonds	<b>3,436,671</b>	4,500,031	-1,063,360
Other bonds	-	26,389	-26,389
<b>Debt instruments</b>	<b>9,664,695</b>	14,077,847	-4,413,152
<i>of which quoted</i>	<b>9,115,534</b>	13,038,233	-3,922,699
<i>of which unquoted</i>	<b>549,161</b>	1,039,614	-490,453
<b>Equity instruments</b>	<b>132,507</b>	122,813	9,694
<i>of which unquoted</i>	<b>132,507</b>	122,813	9,694
<b>Total</b>	<b>11,988,305</b>	17,854,772	-5,866,467

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

			<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>
<b>Debt instruments by credit rating classes</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>7,039,450</b>	9,270,253	-2,230,803
3	A+ – A-	A1 – A3	<b>2,474,487</b>	4,458,685	-1,984,198
4	BBB+ – BBB-	Baa1 – Baa3	<b>127,201</b>	266,745	-139,544
5	BB+ – BB-	Ba1 – Ba3	<b>16,834</b>	52,145	-35,311
Unrated			<b>6,723</b>	30,019	-23,296
<b>Total</b>			<b>9,664,695</b>	14,077,847	-4,413,152

## 12 GOODWILL, INTANGIBLE ASSETS, 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
<b>Historical cost</b>							
Balance on 01.01.2016	1,501.7	1,185.5	548.5	3,235.7	364.7	168.1	532.8
Additions	-	-	137.6	137.6	4.2	23.5	27.7
Disposals/transfers <sup>1</sup>	-	-	18.5	18.5	-	9.7	9.7
Balance on 31.12.2016	1,501.7	1,185.5	667.6	3,354.8	368.9	181.9	550.8
Additions	-	-	140.2	140.2	3.6	16.9	20.5
Disposals/transfers <sup>1</sup>	-	-	1.0	1.0	-	15.1	15.1
Balance on 31.12.2017	1,501.7	1,185.5	806.8	3,494.0	372.5	183.7	556.2

### Depreciation, amortisation and impairment

Balance on 01.01.2016	-	904.3	323.6	1,227.9	82.5	131.7	214.2
Charge for the period	-	47.4	32.7 <sup>2</sup>	80.1	11.1	19.9 <sup>2</sup>	31.0
Disposals/transfers <sup>1</sup>	-	-	18.5	18.5	-	9.7	9.7
Balance on 31.12.2016	-	951.7	337.8	1,289.5	93.6	141.9	235.5
Charge for the period	-	47.3	42.3 <sup>3</sup>	89.6	11.5	22.7	34.2
Disposals/transfers <sup>1</sup>	-	-	1.0	1.0	-	15.1	15.1
Balance on 31.12.2017	-	999.0	379.1	1,378.1	105.1	149.5	254.6

### Carrying value

Balance on 31.12.2016	1,501.7	233.8	329.8	2,065.3	275.3	40.0	315.3
<b>Balance on 31.12.2017</b>	<b>1,501.7</b>	<b>186.5</b>	<b>427.7</b>	<b>2,115.9</b>	<b>267.4</b>	<b>34.2</b>	<b>301.6</b>

<sup>1</sup> Includes derecognition of fully depreciated and amortised assets

<sup>2</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

<sup>3</sup> Includes impairment of CHF 0.4 million related to software and other property and equipment not used anymore



### **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 Bank, 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 18 regarding the determination of the segments).

The Bank uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Bank 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 Bank 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 Bank cannot exclude short-term market disruptions. The Bank 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 the Bank.

The Bank'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 Bank 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 Bank 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%. 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 the 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. 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

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
Not later than one year	<b>52,379</b>	51,636
Later than one year and not later than five years	<b>134,321</b>	137,422
Later than five years	<b>126,141</b>	139,828
<b>Subtotal</b>	<b>312,841</b>	328,886
Less sublease rentals received under non-cancellable leases	<b>17,920</b>	22,205
<b>Total</b>	<b>294,921</b>	306,681

Expenses for operating leases in the gross amount of CHF 52.0 million are included in operating expenses for the 2017 financial year (2016: CHF 48.2 million).

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

	Carrying value <i>CHF 1,000</i>	<b>31.12.2017</b> Effective commitment <i>CHF 1,000</i>	Carrying value <i>CHF 1,000</i>	31.12.2016 Effective commitment <i>CHF 1,000</i>
Securities	<b>710,941</b>	<b>710,941</b>	917,567	917,567
Other	<b>4,000</b>	<b>4,000</b>	6,897	6,897
<b>Total</b>	<b>714,941</b>	<b>714,941</b>	924,464	924,464

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	6,736.9	242.0	92.5	-	-	-	-	<b>7,071.4</b>	5,088.6
Interest rates (ranges in %)	0.1–57.06	2.0–15.12	2.0–8.54	-	-	-	-	-	-
Floating rate	999.1	430.0	355.0	305.2	86.0	459.9	2,130.1	<b>4,765.3</b>	3,355.8
<b>Total</b>	<b>7,736.0</b>	<b>672.0</b>	<b>447.5</b>	<b>305.2</b>	<b>86.0</b>	<b>459.9</b>	<b>2,130.1</b>	<b>11,836.7</b>	8,444.4

The Bank 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 Bank cannot determine the difference between the carrying amount and the amount the Bank 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.

## 16A DEFERRED TAX ASSETS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
Balance at the beginning of the year	<b>14,638</b>	13,571
Income statement - credit	<b>7,495</b>	1,418
Income statement - charge	<b>-970</b>	-690
Recognised directly in OCI	<b>-96</b>	339
Translation differences and other adjustments	<b>-10,580</b>	-
<b>Balance at the end of the year</b>	<b>10,487</b>	14,638

The components of deferred tax assets are as follows:

Operating loss carry-forwards	<b>12,571</b>	9,244
Employee compensation and benefits	<b>2,237</b>	3,932
Financial investments available-for-sale	-	1,390
Property and equipment	-	72
Deferred tax assets before set-off <sup>1</sup>	<b>14,808</b>	14,638
Offset of intangible assets	<b>-4,283</b>	-
Offset of other	<b>-38</b>	-
<b>Total</b>	<b>10,487</b>	14,638

<sup>1</sup> For balance sheet purposes, the Bank recognises either a deferred tax asset or a deferred tax liability as per 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.

## 16B DEFERRED TAX LIABILITIES

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>
Balance at the beginning of the year	<b>57,322</b>	29,109
Income statement - charge	<b>217</b>	12,622
Income statement - credit	<b>-5,770</b>	-2,215
Recognised directly in OCI	<b>2,748</b>	17,806
Translation differences and other adjustments	<b>-11,012</b>	-
<b>Balance at the end of the year</b>	<b>43,505</b>	57,322

The components of deferred tax liabilities<sup>1</sup> are as follows:

Property and equipment	<b>14,460</b>	14,995
Financial investments available-for-sale	<b>25,439</b>	24,939
Intangible assets	<b>18,639</b>	29,677
Other	<b>12,926</b>	13,987
Deferred tax liability before set-off <sup>2</sup>	<b>71,464</b>	83,598
Offset of pension liability taxes	<b>-21,516</b>	-26,276
Offset of provision	<b>-2,125</b>	-
Offset of employee compensation and benefits	<b>-2,840</b>	-
Offset of financial investments available-for-sale	<b>-1,478</b>	-
<b>Total</b>	<b>43,505</b>	57,322

<sup>1</sup> The temporary differences associated with investments in subsidiaries do not lead to deferred tax liabilities, as the Bank 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.

<sup>2</sup> For balance sheet purposes, the Bank recognises either a deferred tax asset or a deferred tax liability as per 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.

## 17 PROVISIONS

	Legal risks CHF 1,000	Other CHF 1,000	2017 Total CHF 1,000	2016 Total CHF 1,000
Balance at the beginning of the year	7,358	2,472	9,830	573,326
Utilised during the year	-2,697	-242	-2,939	-563,992 <sup>1</sup>
Provisions made during the year	5,924	12,500	18,424	7,941
Provisions reversed during the year	-1,378	-	-1,378	-4,094
Translation differences	7	-	7	-3,351
<b>Balance at the end of the year</b>	<b>9,214</b>	<b>14,730</b>	<b>23,944</b>	<b>9,830</b>

<sup>1</sup> Including the provision in the amount of USD 547.25 million related to the settlement of the US Department of Justice's investigation in Julius Baer's legacy US cross-border business.

### Maturity of provisions

	2017	2016
Up to one year	6,098	1,165
Over one year	17,846	8,665

### Introduction

The Bank 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 Bank 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 Bank'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 Bank is confronted with information and clarification requests from authorities with respect to certain topics. The Bank 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 Bank is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the Bank'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 Bank's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Bank 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 Bank – depending on the status of related proceedings – is difficult to assess.

The Bank 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 Bank 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 Bank 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 ('Betriebsbegehren') 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.

## ADDITIONAL INFORMATION

### 18 REPORTING BY SEGMENT

Bank Julius Baer & Co. Ltd. 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 Bank'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 Bank 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 Bank.

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

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Bank consists of the single reportable segment. This is in line with the strategy and business model of Bank Julius Baer & Co. Ltd. and reflects the management structure and the use of information by management in making operating decisions.

Therefore, the Bank 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	31.12.2016	2017	2016	2017	2016
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	<b>76,976</b>	74,415	<b>1,895</b>	1,803	<b>116,011</b>	118,173
Europe (excl. Switzerland)	<b>19,543</b>	14,505	<b>110</b>	113	-	-
Asia and other countries	<b>26,189</b>	20,254	<b>597</b>	468	<b>44,752</b>	47,104
Less consolidation items	<b>32,355</b>	17,386	<b>58</b>	56	-	-
<b>Total</b>	<b>90,353</b>	91,788	<b>2,544</b>	2,328	<b>160,763</b>	165,277

The information about geographical areas is based on the domicile of the entities. This geographical information does not reflect the way the Bank is managed.

## 19 RELATED PARTY TRANSACTIONS

	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000
<b>Key management personnel compensation<sup>1</sup></b>		
Salaries and other short-term employee benefits	11,771	16,412
Post-employment benefits	652	776
Share-based payments	5,764	6,809
<b>Total</b>	<b>18,187</b>	<b>23,997</b>
<b>Receivables from</b>		
Julius Baer Group entities	519,032	2,881,325
significant shareholders <sup>2</sup>	1,131,968	636,511
key management personnel	12,336	19,938
<b>Total</b>	<b>1,663,336</b>	<b>3,537,774</b>
<b>Liabilities to</b>		
Julius Baer Group entities	2,108,054	4,244,775
significant shareholders <sup>2</sup>	2,051,271	1,273,319
key management personnel	7,172	16,605
own pension funds	4,610	2,371
<b>Total</b>	<b>4,171,107</b>	<b>5,537,070</b>
<b>Credit guarantees to</b>		
Julius Baer Group entities	81,334	178,540
key management personnel	192	395
<b>Total</b>	<b>81,526</b>	<b>178,935</b>
<b>Income from services provided to</b>		
Julius Baer Group entities	283,272	229,033
significant shareholders <sup>2</sup>	118,386	102,428
key management personnel	682	563
<b>Total</b>	<b>402,340</b>	<b>332,024</b>
<b>Services provided by</b>		
Julius Baer Group entities	68,047	63,318
significant shareholders <sup>2</sup>	7,943	9,624
<b>Total</b>	<b>75,990</b>	<b>72,942</b>

<sup>1</sup> Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.  
The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel and the Chief Risk Officer in 2017.

The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the Chief Operating Officer, the General Counsel, the Chief Risk Officer and the Business Representative in 2016.

<sup>2</sup> Julius Baer Group Ltd.

The loans granted to key management personnel consist of Lombard loans on a secured basis (through pledging of the securities portfolios) and mortgages on a fixed and variable basis.

Transactions with Group entities and own pension funds are at arm's length.

The interest rates of the Lombard loans and mortgages are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties adjusted for reduced credit risk.

## 20 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Bank 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 Bank 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 Bank's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Bank. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Bank 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 1,000	2016 CHF 1,000
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,537,945	-2,461,213
Current service cost	-66,598	-65,032
Employees' contributions	-41,689	-37,797
Interest expense on defined benefit obligation	-14,193	-18,547
Past service cost, curtailments, settlements, plan amendments	-1,312	56,647
Benefits paid (including benefits paid directly by employer)	50,944	34,091
Transfer payments in/out	-133	-493
Experience gains/(losses) on defined benefit obligation	-61,406	-29,089
Actuarial gains/(losses) arising from change in demographic assumptions	-99,076 <sup>1</sup>	9,262
Actuarial gains/(losses) arising from change in financial assumptions	14,438	-29,041
Translation differences	-1,063	3,267
Present value of defined benefit obligation at the end of the year	-2,758,033	-2,537,945
<i>whereof due to active members</i>	-1,823,311	-1,638,201
<i>whereof due to deferred members</i>	-13,682	-13,581
<i>whereof due to pensioners</i>	-921,040	-886,163
Fair value of plan assets at the beginning of the year	2,418,510	2,216,507
Interest income on plan assets	13,746	17,273
Employees' contributions	41,689	37,797
Employer's contributions	86,627	100,833
Curtailments, settlements, plan amendments	-623	-606
Benefits paid by fund	-50,944	-34,091
Transfer payments in/out	133	493
Administration cost (excluding asset management cost)	-959	-909
Return on plan assets (excluding interest income)	151,290	83,634
Translation differences	763	-2,421
Fair value of plan assets at the end of the year	2,660,232	2,418,510

<sup>1</sup> In 2017, the Bank 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 91.0 million which was recognised in other comprehensive income.

	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000
<b>2. Balance sheet</b>		
Fair value of plan assets	2,660,232	2,418,510
Present value of defined benefit obligation	-2,758,033	-2,537,945
Net defined benefit asset/(liability)	-97,801	-119,435

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD  
**ADDITIONAL INFORMATION**

	2017 CHF 1,000	2016 CHF 1,000
<b>3. Income statement</b>		
Current service cost	-66,598	-65,032
Interest expense on defined benefit obligation	-14,193	-18,547
Past service cost, curtailments, settlements, plan amendments	-1,935	56,041 <sup>1</sup>
Interest income on plan assets	13,746	17,273
Administration cost (excluding asset management cost)	-959	-909
Defined benefit cost recognised in the income statement	-69,939	-11,174
<i>whereof service cost</i>	-69,492	-9,900
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-447	-1,274

<sup>1</sup> In 2016, the Bank 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 61.5 million, which was recognised in the income statement.

**4. Movement in defined benefit liability**

Net defined benefit asset/(liability) at the beginning of the year	-119,435	-244,706
Translation differences	-300	846
Defined benefit cost recognised in the income statement	-69,939	-11,174
Employer's contributions	86,627	100,833
Remeasurements of the net defined benefit liability/(asset)	5,246	34,766
<b>Amounts recognised in the balance sheet</b>	<b>-97,801</b>	<b>-119,435</b>

**Remeasurements of the net defined benefit liability/(asset)**

Actuarial gains/(losses) of defined benefit obligation	-146,044	-48,868
Return on plan assets (excluding interest income)	151,290	83,634
<b>Total recognised in other comprehensive income</b>	<b>5,246</b>	<b>34,766</b>

**5. Composition of plan assets**

Cash	129,651	119,619
Debt instruments	691,900	729,530
Equity instruments	872,208	726,090
Real estate	446,019	398,408
Alternative investments	285,037	262,940
Other	235,417	181,923
<b>Total</b>	<b>2,660,232</b>	<b>2,418,510</b>

	2017 %	2016 %
<b>6. Aggregation of plan assets – quoted market prices in active markets</b>		
Cash	4.88	4.95
Debt instruments	22.74	28.90
Equity instruments	32.82	30.02
Real estate	8.09	7.45
Other	8.33	12.72
<b>Total</b>	<b>76.86</b>	<b>84.04</b>

	2017 CHF 1,000	2016 CHF 1,000
<b>7. Sensitivities</b>		
Decrease of discount rate - 0.25%		
Effect on defined benefit obligation	-77,145	-66,953
Effect on service cost	-2,680	-2,276
Increase of discount rate + 0.25%		
Effect on defined benefit obligation	72,966	63,369
Effect on service cost	2,515	2,143
Decrease of salary increase - 0.25%		
Effect on defined benefit obligation	9,469	8,698
Effect on service cost	919	864
Increase of salary increase + 0.25%		
Effect on defined benefit obligation	-9,685	-8,898
Effect on service cost	-941	-885
Life expectancy		
Increase in longevity by one additional year	57.7	52.6

#### **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 99% (2016: 99%) 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 84.6 million.

#### **Outstanding liabilities to pension plans**

The Bank had outstanding liabilities to various pension plans in the amount of CHF 4.6 million (2016: CHF 2.4 million).

#### **Defined contribution pension plans**

Bank Julius Baer & Co. Ltd. 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 19.4 million for the 2017 financial year (2016: CHF 17.9 million).

## 21 SECURITIES TRANSACTIONS

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

	<b>31.12.2017</b> CHF m	31.12.2016 CHF m
<b>Receivables</b>		
Receivables from cash provided in securities borrowing transactions	<b>56.6</b>	16.2
<i>of which recognised in due from banks</i>	<b>56.6</b>	16.2
Receivables from cash provided in reverse repurchase transactions	<b>2.6</b>	1.4
<i>of which recognised in due from banks</i>	<b>2.6</b>	1.4
<b>Obligations</b>		
Obligations to return cash received in securities lending transactions	<b>988.1</b>	1,301.2
<i>of which recognised in due to banks</i>	<b>988.1</b>	1,301.2
Obligations to return cash received in repurchase transactions	<b>206.4</b>	248.3
<i>of which recognised in due to banks</i>	<b>206.4</b>	248.3
<b>Securities collateral</b>		
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	<b>2,470.1</b>	2,342.3
<i>of which securities the right to pledge or sell has been granted without restriction</i>	<b>2,470.1</b>	2,342.3
<i>of which recognised in trading assets</i>	<b>1,547.7</b>	1,543.2
<i>of which recognised in financial investments available-for-sale</i>	<b>922.4</b>	799.1
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	<b>2,872.3</b>	2,138.7
<i>of which repledged or resold securities</i>	<b>2,834.7</b>	2,032.3

The Bank 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.



## 22 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
<b>Foreign exchange derivatives</b>			
Forward contracts	70,862.9	526.8	538.3
Futures	121.6	0.5	0.6
Cross-Currency Swaps	620.6	8.9	2.8
Options (OTC)	33,948.8	320.2	186.1
<b>Total foreign exchange derivatives 31.12.2017</b>	<b>105,553.9</b>	<b>856.4</b>	<b>727.8</b>
Total foreign exchange derivatives 31.12.2016	105,594.8	1,218.1	1,043.8
<b>Interest rate derivatives</b>			
Swaps	12,870.4	94.7	84.4
Futures	696.8	1.1	1.5
Options (OTC)	196.4	11.0	12.9
<b>Total interest rate derivatives 31.12.2017</b>	<b>13,763.6</b>	<b>106.8</b>	<b>98.8</b>
Total interest rate derivatives 31.12.2016	9,851.1	123.3	111.9
<b>Precious metals derivatives</b>			
Forward contracts	2,875.9	45.2	31.9
Futures	812.4	1.2	0.3
Options (OTC)	2,836.9	129.0	19.7
Options (traded)	165.5	-	4.0
<b>Total precious metals derivatives 31.12.2017</b>	<b>6,690.7</b>	<b>175.4</b>	<b>55.9</b>
Total precious metals derivatives 31.12.2016	4,656.5	211.1	99.1
<b>Equity/indices derivatives</b>			
Futures	1,103.9	11.1	11.7
Options (OTC)	11,114.4	257.7	289.4
Options (traded)	12,146.4	489.9	750.3
<b>Total equity/indices derivatives 31.12.2017</b>	<b>24,364.7</b>	<b>758.7</b>	<b>1,051.4</b>
Total equity/indices derivatives 31.12.2016	21,641.6	1,077.9	894.7
<b>Other derivatives</b>			
Futures	168.8	0.8	5.3
<b>Total other derivatives 31.12.2017</b>	<b>168.8</b>	<b>0.8</b>	<b>5.3</b>
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
<b>Credit derivatives</b>			
Credit default swaps	316.1	0.2	6.6
Total return swaps	70.4	2.4	-
<b>Total credit derivatives 31.12.2017</b>	<b>386.5</b>	<b>2.6</b>	<b>6.6</b>
Total credit derivatives 31.12.2016	401.0	2.4	17.1
<b>Total derivatives held for trading 31.12.2017</b>	<b>150,928.2</b>	<b>1,900.7</b>	<b>1,945.8</b>
Total derivatives held for trading 31.12.2016	142,289.1	2,633.3	2,169.3

**Derivatives held for hedging**

**Derivatives designated as fair value hedges**

Interest rate swaps	2,590.9	17.1	47.9
<b>Total derivatives held for hedging 31.12.2017</b>	<b>2,590.9</b>	<b>17.1</b>	<b>47.9</b>
Total derivatives held for hedging 31.12.2016	2,171.1	10.8	71.9
<b>Total derivative financial instruments 31.12.2017</b>	<b>153,519.1</b>	<b>1,917.8</b>	<b>1,993.7</b>
Total derivative financial instruments 31.12.2016	144,460.2	2,644.1	2,241.2

## 23A FINANCIAL INSTRUMENTS BY CATEGORY

### Financial assets

	Carrying value CHF m	<b>31.12.2017</b> Fair value CHF m	Carrying value CHF m	31.12.2016 Fair value CHF m
<b>Cash, loans and receivables</b>				
Cash	<b>8,785.0</b>	<b>8,785.0</b>	11,805.6	11,805.6
Due from banks	<b>8,298.0</b>	<b>8,311.3</b>	13,768.3	13,786.5
Loans	<b>42,369.2</b>	<b>42,711.2</b>	34,806.9	35,226.0
Accrued income	<b>236.4</b>	<b>236.4</b>	218.1	218.1
<b>Total</b>	<b>59,688.6</b>	<b>60,043.9</b>	60,598.9	61,036.2
<b>Held for trading</b>				
Trading assets	<b>11,361.7</b>	<b>11,361.7</b>	7,358.1	7,358.1
Derivative financial instruments	<b>1,900.7</b>	<b>1,900.7</b>	2,633.3	2,633.3
<b>Total</b>	<b>13,262.4</b>	<b>13,262.4</b>	9,991.4	9,991.4
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	<b>17.1</b>	<b>17.1</b>	10.8	10.8
<b>Total</b>	<b>17.1</b>	<b>17.1</b>	10.8	10.8
<b>Designated at fair value</b>				
Financial assets designated at fair value	<b>265.6</b>	<b>265.6</b>	252.4	252.4
<b>Total</b>	<b>265.6</b>	<b>265.6</b>	252.4	252.4
<b>Available-for-sale</b>				
Financial investments available-for-sale	<b>11,988.3</b>	<b>11,988.3</b>	17,854.8	17,854.8
<b>Total</b>	<b>11,988.3</b>	<b>11,988.3</b>	17,854.8	17,854.8
<b>Total financial assets</b>	<b>85,222.0</b>	<b>85,577.3</b>	88,708.3	89,145.6

**Financial liabilities**

	Carrying value CHF m	31.12.2017 Fair value CHF m	Carrying value CHF m	31.12.2016 Fair value CHF m
<b>Financial liabilities at amortised costs</b>				
Due to banks	9,343.1	9,343.1	14,248.9	14,249.3
Due to customers	61,128.7	61,244.5	61,265.0	61,392.9
Accrued expenses	149.0	149.0	146.0	146.0
<b>Total</b>	<b>70,620.8</b>	<b>70,736.6</b>	75,659.9	75,788.2
<b>Held for trading</b>				
Trading liabilities	135.8	135.8	159.0	159.0
Derivative financial instruments	1,945.8	1,945.8	2,169.3	2,169.3
<b>Total</b>	<b>2,081.6</b>	<b>2,081.6</b>	2,328.3	2,328.3
<b>Derivatives designated as hedging instruments</b>				
Derivative financial instruments	47.9	47.9	71.9	71.9
<b>Total</b>	<b>47.9</b>	<b>47.9</b>	71.9	71.9
<b>Designated at fair value</b>				
Financial liabilities designated at fair value	11,836.7	11,836.7	8,444.4	8,444.4
<b>Total</b>	<b>11,836.7</b>	<b>11,836.7</b>	8,444.4	8,444.4
<b>Total financial liabilities</b>	<b>84,587.0</b>	<b>84,702.8</b>	86,504.5	86,632.8

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 23B for details regarding the valuation of these instruments.

## 23B 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 Bank 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 Bank 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 Bank'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 Bank's income statement or shareholders' equity.

To measure the fair values of the private equity investments, the Bank 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:

	<b>31.12.2017</b>			
	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	<b>Total</b> CHF m
<b>Assets and liabilities measured at fair value</b>				
Trading assets – debt instruments	1,921.9	352.5	-	2,274.4
Trading assets – equity instruments	7,093.4	1,993.8	-	9,087.2
<b>Total trading assets</b>	<b>9,015.3</b>	<b>2,346.3</b>	<b>-</b>	<b>11,361.6</b>
Foreign exchange derivatives	0.5	855.9	-	856.4
Interest rate derivatives	1.1	122.8	-	123.9
Precious metal derivatives	1.2	174.2	-	175.4
Equity/indices derivatives	11.1	747.6	-	758.7
Credit derivatives	-	2.6	-	2.6
Other derivatives	0.8	-	-	0.8
<b>Total derivative financial instruments</b>	<b>14.7</b>	<b>1,903.1</b>	<b>-</b>	<b>1,917.8</b>
<b>Financial assets designated at fair value</b>	<b>14.0</b>	<b>108.9</b>	<b>142.7</b>	<b>265.6</b>
Financial investments available-for-sale – money market instruments	249.8	1,941.3	-	2,191.1
Financial investments available-for-sale – debt instruments	8,713.2	951.5	-	9,664.7
Financial investments available-for-sale – equity instruments	-	-	132.5	132.5
<b>Total financial investments available-for-sale</b>	<b>8,963.0</b>	<b>2,892.8</b>	<b>132.5</b>	<b>11,988.3</b>
<b>Total assets</b>	<b>18,007.0</b>	<b>7,251.1</b>	<b>275.2</b>	<b>25,533.3</b>
Short positions – debt instruments	9.4	-	-	9.4
Short positions – equity instruments	82.4	44.1	-	126.5
<b>Total trading liabilities</b>	<b>91.8</b>	<b>44.1</b>	<b>-</b>	<b>135.9</b>
Foreign exchange derivatives	0.6	727.2	-	727.8
Interest rate derivatives	1.5	145.2	-	146.7
Precious metal derivatives	0.3	55.6	-	55.9
Equity/indices derivatives	11.7	1,039.7	-	1,051.4
Credit derivatives	-	6.6	-	6.6
Other derivatives	5.3	-	-	5.3
<b>Total derivative financial instruments</b>	<b>19.4</b>	<b>1,974.3</b>	<b>-</b>	<b>1,993.7</b>
<b>Financial liabilities designated at fair value</b>	<b>-</b>	<b>11,557.6</b>	<b>279.1</b>	<b>11,836.7</b>
<b>Total liabilities</b>	<b>111.2</b>	<b>13,576.0</b>	<b>279.1</b>	<b>13,966.3</b>

FINANCIAL STATEMENTS IFRS BANK JULIUS BAER & CO. LTD. 2017  
**ADDITIONAL INFORMATION**

				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	1,369.4	46.7	-	1,416.1
Trading assets – equity instruments	5,560.7	381.3	-	5,942.0
Total trading assets	6,930.1	428.0	-	7,358.1
Foreign exchange derivatives	0.1	1,218.0	-	1,218.1
Interest rate derivatives	1.4	132.7	-	134.1
Precious metal derivatives	1.2	209.9	-	211.1
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	51.7	2,592.4	-	2,644.1
Financial assets designated at fair value	128.3	29.3	94.8	252.4
Financial investments available-for-sale – money market instruments	516.3	3,137.8	-	3,654.1
Financial investments available-for-sale – debt instruments	13,183.1	894.7	-	14,077.8
Financial investments available-for-sale – equity instruments	-	0.5	122.4	122.9
Total financial investments available-for-sale	13,699.4	4,033.0	122.4	17,854.8
<b>Total assets</b>	<b>20,809.5</b>	<b>7,082.7</b>	<b>217.2</b>	<b>28,109.4</b>
Short positions – debt instruments	44.6	3.4	-	48.0
Short positions – equity instruments	96.0	15.0	-	111.0
Total trading liabilities	140.6	18.4	-	159.0
Foreign exchange derivatives	0.1	1,043.7	-	1,043.8
Interest rate derivatives	1.7	182.1	-	183.8
Precious metal derivatives	-	99.1	-	99.1
Equity/indices derivatives	43.0	861.9	-	904.9
Credit derivatives	-	6.9	-	6.9
Other derivatives	2.7	-	-	2.7
Total derivative financial instruments	47.5	2,193.7	-	2,241.2
Financial liabilities designated at fair value	-	8,180.8	263.6	8,444.4
<b>Total liabilities</b>	<b>188.1</b>	<b>10,392.9</b>	<b>263.6</b>	<b>10,844.6</b>

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

				<b>31.12.2017</b>
	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	<b>Total</b> CHF m
<b>Assets and liabilities disclosed at fair value</b>				
Cash	8,785.0	-	-	8,785.0
Due from banks	-	8,311.3	-	8,311.3
Loans	-	42,711.2	-	42,711.2
Accrued income	-	236.4	-	236.4
<b>Total assets</b>	<b>8,785.0</b>	<b>51,258.9</b>	<b>-</b>	<b>60,043.9</b>
<hr/>				
Due to banks	-	9,343.1	-	9,343.1
Due to customers	-	61,244.5	-	61,244.5
Accrued expenses	-	149.0	-	149.0
<b>Total liabilities</b>	<b>-</b>	<b>70,736.6</b>	<b>-</b>	<b>70,736.6</b>
<hr/>				
				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
<b>Assets and liabilities disclosed at fair value</b>				
Cash	11,805.6	-	-	11,805.6
Due from banks	-	13,786.5	-	13,786.5
Loans	-	35,226.0	-	35,226.0
Accrued income	-	218.1	-	218.1
<b>Total assets</b>	<b>11,805.6</b>	<b>49,230.6</b>	<b>-</b>	<b>61,036.2</b>
<hr/>				
Due to banks	-	14,249.3	-	14,249.3
Due to customers	-	61,392.9	-	61,392.9
Accrued expenses	-	146.0	-	146.0
<b>Total liabilities</b>	<b>-</b>	<b>75,788.2</b>	<b>-</b>	<b>75,788.2</b>



23C FINANCIAL INSTRUMENTS – TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>
<b>Transfers from level 1 to level 2</b>		
Trading assets	417.7	1.3
Trading liabilities	10.0	-
<b>Transfers from level 2 to level 1</b>		
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.

## 23D FINANCIAL INSTRUMENTS – OFFSETTING

As a private bank, the Bank 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 Bank 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 Bank's arrangements may not fulfil the strict offsetting criteria as required by IFRS, the Bank 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 Bank 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 21 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 1,413.2 million (positive replacement values) and CHF 1,220.1 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 Bank'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 1,597.3 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 Bank's credit risk strategies and exposure.

## 24A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2017

	Head Office	Currency	Share capital m	Equity interest %
<b>Banks</b>				
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich</i>				
<i>Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv</i>				
<i>including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100

## 24B UNCONSOLIDATED STRUCTURED ENTITIES

The Bank 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 Bank's clients. The Bank 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 Bank 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 Bank does not have control over the underlying investments, but only consolidates the limited partnerships.

## 25 ACQUISITIONS

The following transaction was executed:

### **WMPartners Wealth Management Ltd., Zurich**

In July 2017, the Bank acquired the Zurich-based WMPartners Wealth Management Ltd. from its parent company Julius Baer Group Ltd. The transaction was accounted for as a common control transaction, meaning that the book values of the transferred assets and liabilities have not been adjusted. The equity (net asset value) of the

acquired company was recognised as addition in the Bank's capital reserves and reflects the capital contribution from the parent.

The business acquired has been fully integrated into the existing Bank structure. Therefore the Bank is not able to disclose any income statement impacts of the acquired WMPartners Wealth Management business on the Bank's financial statements.

The assets and liabilities of WMPartners Wealth Management Ltd. were recorded as follows:

	Fair value CHF 1,000
<b>Purchase price</b>	
capital contribution in kind	4,022
<b>Total</b>	4,022
<b>Assets acquired</b>	
Due from banks	2,275
All other assets	3,736
<b>Total</b>	6,011
<b>Liabilities assumed</b>	
All other liabilities	1,989
<b>Total</b>	1,989

## 26 SHARE-BASED PAYMENTS AND OTHER COMPENSATION PLANS

The programmes described below reflect the plan landscape as at 31 December 2017. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Bank's overall compensation landscape is described in the chapter Remuneration Report of Julius Baer Group Ltd.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation – Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned, and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation – Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Bank through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation – Equity Performance Plan*

The Equity Performance Plan (EPP) is a key part of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks

to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer, and total variable compensation and, as a new factor, individual contribution in the reporting period (as part of the adjustment to the performance-alignment approach for this performance year's EPP awards). All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, current as well as projected future contributions to the Group, defined total pay mix and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible participants subject to individual performance in the reporting period and future performance-based requirements. The EPP award reflects the value of the individual for the current and future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.
- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting

mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch Relationship Managers)*  
As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key Relationship Managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to Julius Baer.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

*Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Bank or caused reputational damage.

*Long-Term Incentive Plan (LTI)*

In certain specific situations the Bank may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Bank currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff vesting of all granted shares in one single tranche at the end of the three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited.

#### *Staff Participation Plan (SPP)*

The SPP is offered to most of the Bank's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Bank equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer Group Ltd. shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Bank, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Bank.

#### **Financing of share plans**

Julius Baer Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the Loteco Foundation. Until vesting, the granted shares are administered by the foundation. The Bank finances these shares purchased by the Loteco Foundation. At the end of the reporting period the Bank recognised the amount of CHF 41.5 million (2016: CHF 45.1 million) as 'prefinanced share-based payments' included in other assets. This asset will be recovered over the vesting period by way of a capital distribution representing the recharge of share-based payments made by the Loteco Foundation.

In the reporting period this capital distribution amounted to CHF 52.5 million (2016: CHF 48.3 million).

To the extent that the prefinanced share-based payments will not result in vested share-based payments the asset will be recovered in cash from the Loteco Foundation.

The expense related to prefinanced share-based payments amount to CHF 52.0 million (2016: CHF 48.3 million).

Movements in shares/performance units granted under various participation plans are as follows:

	<b>31.12.2017</b>		Number of units Economic Profit	31.12.2016 Number of units Total Shareholder Return
	Number of units Economic Profit	Number of units Total Shareholder Return		
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>643,730</b>	<b>643,730</b>	488,173	488,173
Granted during the year	<b>242,457</b>	<b>242,457</b>	287,249	287,249
Exercised during the year	<b>-184,450</b>	<b>-184,450</b>	-46,160	-46,160
Forfeited during the year	<b>-91,500</b>	<b>-91,500</b>	-85,532	-85,532
Unvested units outstanding, at the end of the year	<b>610,237</b>	<b>610,237</b>	643,730	643,730

	<b>31.12.2017</b>	31.12.2016
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>956,803</b>	904,945
Granted during the year	<b>406,954</b>	492,563
Vested during the year	<b>-405,623</b>	-361,884
Transferred (net) during the year	<b>-1,275</b>	4,022
Forfeited during the year	<b>-37,343</b>	-82,843
Unvested shares outstanding, at the end of the year	<b>919,516</b>	956,803
Weighted average fair value per share granted (CHF)	<b>47.07</b>	39.28
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>54,803</b>	43,276

	<b>31.12.2017</b>	31.12.2016
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	-	404,462
Vested during the year	-	-409,058
Transferred (net) during the year	-	4,596
Forfeited during the year	-	-
Unvested shares outstanding, at the end of the year	-	-
Fair value of outstanding shares at the end of the year (CHF 1,000)	-	-



	31.12.2017	31.12.2016
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	287,526	300,335
Vested during the year	-107,826	-
Forfeited during the year	-916	-12,809
Unvested shares outstanding, at the end of the year	178,784	287,526
Fair value of outstanding shares at the end of the year (CHF 1,000)	10,656	13,005

	31.12.2017	31.12.2016
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	379,291	267,001
Granted during the year	164,949	285,125
Vested during the year	-150,540	-129,188
Transferred (net) during the year	4,309	284
Forfeited during the year	-27,233	-43,931
Unvested shares outstanding, at the end of the year	370,776	379,291
Weighted average fair value per share awarded (CHF)	52.52	40.69
Fair value of outstanding shares at the end of the year (CHF 1,000)	22,098	17,155

	31.12.2017	31.12.2016
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	106,494	103,754
Granted during the year	37,825	43,889
Vested during the year	-34,964	-37,516
Transferred (net) during the year	1,235	-208
Forfeited during the year	-5,687	-3,425
Unvested shares outstanding, at the end of the year	104,903	106,494
Weighted average fair value per share granted (CHF)	48.91	42.74
Fair value of outstanding shares at the end of the year (CHF 1,000)	6,252	4,817

Compensation expense recognised for the various share plans are:

	31.12.2017 <i>CHF m</i>	31.12.2016 <i>CHF m</i>
<b>Compensation expense</b>		
Equity Performance Plan	23.8	17.2
Premium Share Plan	17.4	17.3
Incentive Share Plan	-	0.4
Integration Incentive Award	1.9	2.8
Long-Term Incentive Plan	7.5	9.0
Staff Participation Plan	1.4	1.6
<b>Total</b>	<b>52.0</b>	<b>48.3</b>

## 27 ASSETS UNDER MANAGEMENT

Assets under management include all bankable assets managed by or deposited with the Bank for investment purposes. Assets included are portfolios of wealth management clients for which the Bank provides discretionary or advisory asset management services. Assets deposited with the Bank held for transactional or safekeeping/custody purposes, and where the Bank 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 the assets for which the investment decisions are made by the Bank, and cover assets deposited with the Bank as well as assets deposited at third-party institutions. Other assets under management are defined as the 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 Bank.

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 Bank subsidiary or business are stated separately. 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 are disclosed according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

**Assets under management**

	2017 <i>CHF m</i>	2016 <i>CHF m</i>	Change %
Assets with discretionary mandate	<b>45,139</b>	39,390	14.6
Other assets under management	<b>274,132</b>	239,354	14.5
<b>Total assets under management (including double counting)</b>	<b>319,271</b>	278,744	14.5
<i>of which double counting</i>	<b>7,658</b>	5,757	33.0
Change through net new money	<b>16,903</b>	7,736	
Change through market and currency impacts	<b>27,670</b>	11,203	
Change through acquisition	<b>1,212<sup>1</sup></b>	-	
Change through divestment	<b>-75<sup>2</sup></b>	-8	
Change through other effects	<b>-5,183<sup>3</sup></b>	-	
Client assets	<b>387,983</b>	334,203	16.1

<sup>1</sup> In July 2017, the Bank integrated WMPartners Wealth Management Ltd., Zurich.

<sup>2</sup> Assets under management were affected by the Bank's decision to discontinue its offering to clients from a number of selected countries.

<sup>3</sup> Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland.

Client assets are defined as all bankable assets managed by or deposited with the Bank 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 %
<b>By types of investment</b>		
Equities	29	28
Bonds (including convertible bonds)	21	21
Investment funds	22	20
Money market instruments	3	7
Client deposits	18	17
Structured products	6	6
Other	1	1
<b>Total</b>	<b>100</b>	<b>100</b>

<b>By currencies</b>		
CHF	11	12
EUR	18	18
USD	50	49
GBP	4	5
SGD	2	2
HKD	5	3
RUB	1	1
CAD	1	1
Other	8	9
<b>Total</b>	<b>100</b>	<b>100</b>

## 28 REQUIREMENTS OF SWISS BANKING LAW

The Bank 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 Bank:

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.

## 29 EVENTS AFTER THE BALANCE SHEET DATE

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

# REPORT OF THE STATUTORY AUDITOR TO THE ANNUAL GENERAL MEETING OF BANK JULIUS BAER & CO. LTD., ZURICH



**KPMG AG**  
**Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Internet [www.kpmg.ch](http://www.kpmg.ch)

Statutory Auditor's Report to the General Meeting of

**Bank Julius Baer & Co. Ltd., Zurich**

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## **Report on the Audit of the Consolidated Financial Statements**

### *Opinion*

We have audited the consolidated financial statements of Bank Julius Baer & Co. Ltd., and its subsidiaries (the Bank), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (pages 4 to 95).

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Bank as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### *Basis for Opinion*

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other information in the Annual Report*

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



**Bank Julius Baer & Co. Ltd., Zurich**  
*Statutory Auditor's Report  
on the Audit of the Consolidated Financial Statements  
to the General Meeting*

*Responsibility of the Board of Directors for the Consolidated Financial Statements*

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.



**Bank Julius Baer & Co. Ltd., Zurich**  
*Statutory Auditor's Report  
on the Audit of the Consolidated Financial Statements  
to the General Meeting*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Other Legal and Regulatory Requirements**

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

  
Philipp Rickert  
*Licensed Audit Expert  
Auditor in Charge*

  
Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 23 February 2018



**Appendix 3:  
BJB Financial Statements 2017**

Income Statement	H-2
Balance Sheet	H-3
Notes	H-31
Auditor's Report	H-64

**Appendix 3:  
BJB Finanzinformationen 2017**

Gewinn- und Verlustrechnung	H-2
Bilanz	H-3
Anhang	H-31
Bestätigungsvermerk der Abschlussprüfer	H-64

## FINANCIAL STATEMENTS

### INCOME STATEMENT

	Note	2017 CHF 1,000	2016 CHF 1,000	Change CHF 1,000	Change %
Interest and discount income		<b>610,257</b>	464,527	145,730	31.4
Interest and dividend income on trading portfolios		<b>232,173</b>	225,841	6,332	2.8
Interest and dividend income on financial investments		<b>283,527</b>	310,815	-27,288	-8.8
Interest expense		<b>147,034</b>	87,401	59,633	68.2
Gross result on interest operations	1	<b>978,923</b>	913,782	65,141	7.1
Changes in value adjustments for default risks and losses from interest operations and losses on the interest business		<b>9,152</b>	-8,523	17,675	-
Subtotal net result on interest operations		<b>988,075</b>	905,259	82,816	9.1
Commission income on securities trading and investment activities and investment transactions		<b>1,615,146</b>	1,388,071	227,075	16.4
Commission income on lending activities		<b>5,567</b>	7,048	-1,481	-21.0
Commission income on other services		<b>117,384</b>	111,075	6,309	5.7
Commission expense		<b>446,470</b>	391,041	55,429	14.2
Subtotal result on commission business and services		<b>1,291,627</b>	1,115,153	176,474	15.8
Result on trading activities and the fair value option	2	<b>279,448</b>	320,231	-40,783	-12.7
Result from the sale of financial investments		<b>-59,810</b>	-79,361	19,551	-24.6
Real estate income		<b>5,879</b>	5,872	7	0.1
Other ordinary income		<b>50,737</b>	65,804	-15,067	-22.9
Other ordinary expenses		-	478	-478	-100.0
Subtotal other result from ordinary activities		<b>-3,194</b>	-8,163	4,969	-60.9
<b>Operating income</b>		<b>2,555,956</b>	2,332,480	223,476	9.6
Personnel expenses	3	<b>1,109,734</b>	972,353	137,381	14.1
General expenses	4	<b>549,617</b>	522,377	27,240	5.2
Subtotal operating expenses		<b>1,659,351</b>	1,494,730	164,621	11.0
Depreciation and amortisation	13	<b>224,527</b>	212,048	12,479	5.9
Provisions and losses	5, 18	<b>21,852</b>	7,905	13,947	176.4
<b>Operating result</b>		<b>650,226</b>	617,797	32,429	5.2
Taxes	6	<b>135,013</b>	109,714	25,299	23.1
<b>Net profit/loss</b>		<b>515,213</b>	508,083	7,130	1.4

## BALANCE SHEET

	Note	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
<b>Assets</b>					
Cash		<b>8,784,983</b>	11,805,590	-3,020,607	-25.6
Due from banks	8	<b>8,238,720</b>	13,750,682	-5,511,962	-40.1
Due from securities transactions	7	<b>59,266</b>	17,622	41,644	236.3
Due from customers	8	<b>34,948,407</b>	27,310,595	7,637,812	28.0
Mortgages	8	<b>7,388,207</b>	7,438,292	-50,085	-0.7
Trading portfolios	9	<b>12,857,570</b>	7,756,942	5,100,628	65.8
Positive replacement values of derivative financial instruments	11	<b>1,917,787</b>	2,644,082	-726,295	-27.5
Financial assets designated at fair value	10	<b>265,571</b>	252,364	13,207	5.2
Financial investments	12	<b>11,866,540</b>	17,725,278	-5,858,738	-33.1
Accrued income and prepaid expenses		<b>266,045</b>	248,296	17,749	7.1
Participations		<b>1,910</b>	1,910	-	-
Tangible fixed assets	13	<b>675,266</b>	589,458	85,808	14.6
Intangible assets	13	<b>930,247</b>	1,079,820	-149,573	-13.9
Other assets	14	<b>1,209,813</b>	314,989	894,824	284.1
<b>Total assets</b>		<b>89,410,332</b>	90,935,920	-1,525,588	-1.7
<hr/>					
Total subordinated claims		<b>341,823</b>	195,035	146,788	75.3
<i>of which with conversion obligation and/or claims waiver</i>		<b>34,020</b>	7,741	26,279	339.5

FINANCIAL STATEMENTS BANK JULIUS BAER & CO. LTD. 2017  
FINANCIAL STATEMENTS

	Note	<b>31.12.2017</b> CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
<b>Liabilities and equity</b>					
Due to banks		<b>8,148,610</b>	12,699,317	-4,550,707	-35.8
Due to securities transactions	7	<b>1,194,487</b>	1,549,547	-355,060	-22.9
Due to customers		<b>61,119,630</b>	61,267,193	-147,563	-0.2
Trading liabilities	9	<b>135,831</b>	158,953	-23,122	-14.5
Negative replacement values of derivative financial instruments	11	<b>1,993,678</b>	2,241,182	-247,504	-11.0
Financial liabilities designated at fair value	10	<b>11,836,724</b>	8,444,443	3,392,281	40.2
Accrued expenses and deferred income		<b>660,065</b>	573,461	86,604	15.1
Other liabilities	15	<b>128,624</b>	100,856	27,768	27.5
Provisions	18	<b>121,745</b>	129,265	-7,520	-5.8
Share capital	19, 20	<b>575,000</b>	575,000	-	-
Statutory capital reserve		<b>1,917,402</b>	1,913,380	4,022	0.2
<i>of which tax-exempt capital contribution reserve</i>		<b>1,913,380</b>	1,913,380	-	-
Statutory retained earnings reserve		<b>465,023</b>	443,023	22,000	5.0
Voluntary retained earnings reserve		<b>598,155</b>	332,155	266,000	80.1
Profit carried forward		<b>145</b>	62	83	133.9
Net profit/loss		<b>515,213</b>	508,083	7,130	1.4
<b>Total liabilities and equity</b>	<b>23</b>	<b>89,410,332</b>	90,935,920	-1,525,588	-1.7
<hr/>					
Total subordinated liabilities		<b>480,000</b>	480,000	-	-
<i>of which with conversion obligation and/or claims waiver</i>		<b>480,000</b>	480,000	-	-

## OFF-BALANCE SHEET TRANSACTIONS

	Note	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
<b>Contingent liabilities</b>	25	<b>1,172,327</b>	1,183,495	-11,168	-0.9
<b>Irrevocable commitments</b>	26	<b>689,392</b>	809,186	-119,794	-14.8
<b>Obligation to make additional contributions</b>	27	<b>50</b>	50	-	-
<b>Unused tax losses carried forward</b>	28	<b>25,401</b>	27,461	-2,060	-7.5
<b>Fiduciary transactions</b>	29	<b>8,424,122</b>	8,304,487	119,635	1.4

## PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING

	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
Net profit	<b>515,213</b>	508,083	7,130	1.4
Profit carried forward	<b>145</b>	62	83	133.9
Disposable profit	<b>515,358</b>	508,145	7,213	1.4
<b>Appropriation of profit</b>				
Allocation to statutory retained earnings reserve	<b>37,000</b>	22,000	15,000	68.2
Allocation to voluntary retained earnings reserve	<b>108,000</b>	266,000	-158,000	-59.4
Dividend payment	<b>370,000</b>	220,000	150,000	68.2
<b>Total appropriation of profit</b>	<b>515,000</b>	508,000	7,000	1.4
<b>Profit carried forward</b>	<b>358</b>	145	213	146.9

## STATEMENT OF CHANGES IN EQUITY

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At 1 January 2016

Allocation to statutory retained earnings reserve

Allocation to voluntary retained earnings reserve

Bank Julius Baer & Co. Ltd. dividend payment

Total profit appropriation 2016

Net profit

Preference dividend of Bank Julius Baer & Co. Ltd.

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

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At 31 December 2016

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**At 1 January 2017**

Allocation to statutory retained earnings reserve

Allocation to voluntary retained earnings reserve

Bank Julius Baer & Co. Ltd. dividend payment

Total profit appropriation 2017

Net profit

Capital contribution<sup>1</sup>

Share-based payments expensed for the year

Distribution to the parent related to share-based payments for the year

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**At 31 December 2017**

<sup>1</sup> In July 2017, the Bank acquired Zurich-based WMPartners Wealth Management Ltd. from its parent company Julius Baer Group Ltd. The transaction was accounted for as a common control transaction, meaning that the book values of the transferred assets and liabilities have not been adjusted. The equity (net asset value) of the acquired company was recognised as addition in the Bank's capital reserves and reflects the capital contribution from the parent.

FINANCIAL STATEMENTS BANK JULIUS BAER & CO. LTD. 2017  
FINANCIAL STATEMENTS

Share capital CHF 1,000	Statutory capital reserve CHF 1,000	Statutory retained earnings reserve CHF 1,000	Voluntary retained earnings reserve CHF 1,000	Retained earnings and net profit CHF 1,000	Total equity attributable to shareholder of Bank Julius Baer & Co. Ltd. CHF 1,000
575,000	1,913,380	420,898	644,280	-39,938	3,513,620
-	-	10,000	-	-10,000	-
-	-	-	-150,000	150,000	-
-	-	-	-	-100,000	-100,000
-	-	10,000	-150,000	40,000	-100,000
-	-	-	-	508,083	508,083
-	-	12,125	-162,125	-	-150,000
-	-	-	-	48,268	48,268
-	-	-	-	-48,268	-48,268
575,000	1,913,380	443,023	332,155	508,145	3,771,703
<b>575,000</b>	<b>1,913,380</b>	<b>443,023</b>	<b>332,155</b>	<b>508,145</b>	<b>3,771,703</b>
-	-	<b>22,000</b>	-	<b>-22,000</b>	-
-	-	-	<b>266,000</b>	<b>-266,000</b>	-
-	-	-	-	<b>-220,000</b>	<b>-220,000</b>
-	-	<b>22,000</b>	<b>266,000</b>	<b>-508,000</b>	<b>-220,000</b>
-	-	-	-	<b>515,213</b>	<b>515,213</b>
-	<b>4,022</b>	-	-	-	<b>4,022</b>
-	-	-	-	<b>52,032</b>	<b>52,032</b>
-	-	-	-	<b>-52,032</b>	<b>-52,032</b>
575,000	1,917,402	465,023	598,155	515,358	4,070,938

## COMMENT ON RISK AND CAPITAL MANAGEMENT

### RISK MANAGEMENT FRAMEWORK AND PROCESS

#### Risk types

For the purpose 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 our 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 and thus also of the principal operating entity Bank Julius Baer & Co. Ltd. The tight organisational as well as commercial relationship between the Group and the Bank makes the risk management principles explained herein analogous to the risk management principles 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 effectively managed 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 all risks except for operational risks to the Chairman's & Risk Committee. Its responsibilities principally include:

- setting the standards and methodologies for risk control with regard to risks other than operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profiles promulgated by the Board of Directors of Julius Baer Group Ltd. or other relevant supervisory or managing bodies;
- the determination, coordination and review of risk limits;
- reviewing policies with regard to risks other than operational risk (including legal and regulatory risks);



- authorising, taking into consideration the respective risk parameters, certain market, credit and financial transactions, including in particular loans granted to members of the Board of Directors and of the Executive Board and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for setting the standards and methods applied to the control of operational risk (including legal and regulatory risks) in order to ensure compliance with the principles and risk profiles formulated by the Board of Directors or other relevant supervisory or managing bodies. The Audit Committee is also responsible for reviewing the operational risk directives.

The Executive Board of the Bank is responsible for measuring and supervising market, liquidity, financing and operational risks. 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 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 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 the Bank 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 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 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.

## 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 Bank. Such non-compliance may result in a financial loss to the Bank.

The Bank has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Bank as a result of such transactions may arise from lending or from actual or potential receivables due to the Bank 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 value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Bank'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, the Bank tends to assign comparatively low mortgage values and adopt a relatively conservative approach to mortgage risk.

In addition, the Bank 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 Bank 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 Bank's consolidated credit exposure, both on a single-counterparty and a counterparty-bank 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 Bank's risk capacity and the applicable regulatory limits

The Bank 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 Bank 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 Bank 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 Bank holds cash collateral for the majority of the counterparty risk arising from its open derivatives positions. The Bank's securities lending business policies explicitly prohibit transactions involving correlation risk.

The Bank 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 Bank to engage in corporate lending activities except for collateralised lending to corporate structures linked to its core private banking business.

The Bank'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.

Bank 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 Julius Baer 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 platform 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.

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](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

## 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 Bank 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 the 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 the Group entities have a functional reporting line to the central market risk unit at Head Office to assure global risk aggregation and application of Group standards in all Group entities.

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 Chairman's & Risk 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 the market risk-management unit reporting to the CRO. This unit uses a central IT system which is continuously developed and expanded. The system supports the calculation of the market-risk and scenario-analysis metrics used. These results are analysed on a daily basis and limit controls are

carried out. Any breach of these limits is investigated in a timely fashion. That system also forms the basis for the external regulatory reporting.

The 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**

The 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 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 the 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.

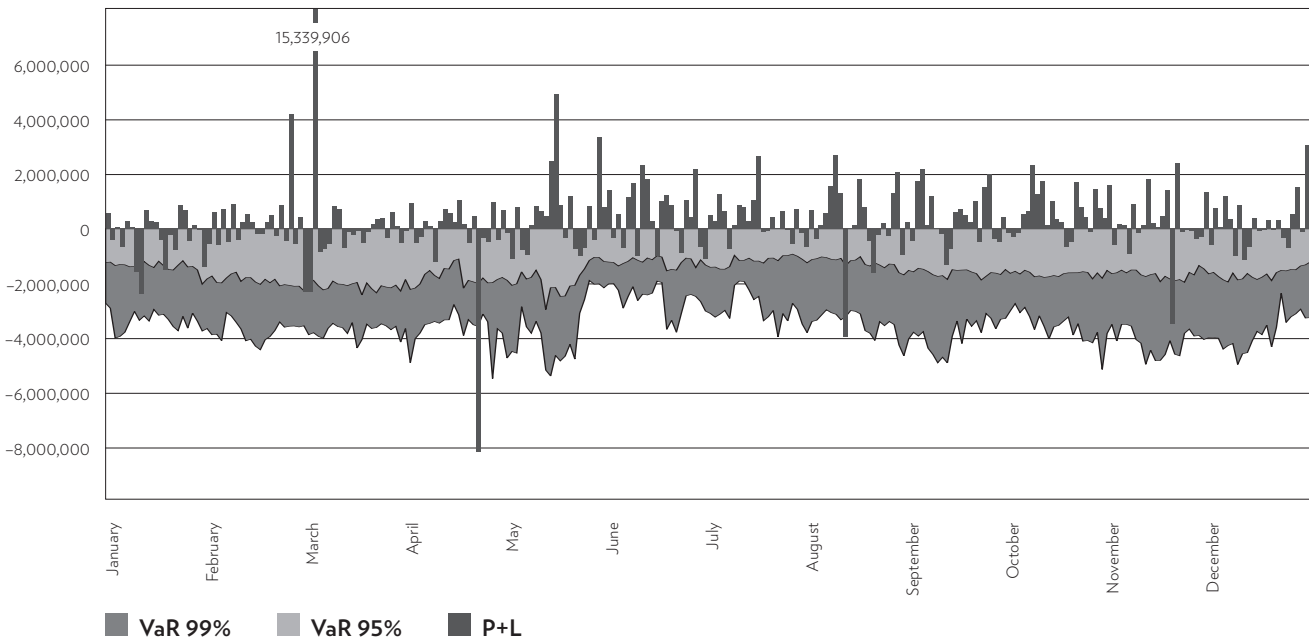
#### **Market risk measurement, market risk limitation, back testing and stress testing**

The Bank uses the following methods 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 Bank 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 could have occurred 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 excersion 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 trading of Bank Julius Baer for 2017 (CHF)**



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.

**VaR method and regulatory capital**

For its VaR calculation, the Bank 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 Bank fulfil the relevant regulatory requirements and have been approved by the Swiss Financial Market Supervisory Authority (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 Bank'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 the 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 excursion over and above the statistically based maximum permitted number of excursions (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 no back-testing excursions to report for the 12 months to 31 December 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](http://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 Bank's fixed-income trading positions is calculated according to the standard method. The new incremental risk charge and comprehensive risk capital charge requirements are not applied.

The following table is a summary of the VaR positions of the Bank's trading portfolios:

**Market risk – VaR positions by risk type**

	At 31 December CHF 1,000	Average CHF 1,000	Maximum CHF 1,000	2017 Minimum CHF 1,000
Equities	-280	-1,245	-2,388	-280
Interest rates	-624	-704	-901	-559
Forex and precious metal trading	-165	-641	-2,730	-1
Effects of correlation	39			
<b>Total 2017</b>	<b>-1,030</b>	<b>-1,595</b>	<b>-2,947</b>	<b>-926</b>
Total 2016	-1,228	-1,289	-2,188	-701

## FINANCING, LIQUIDITY AND INTEREST RATE RISKS IN THE BANKING BOOK

Financing risk is the risk of the Bank being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Bank 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 Bank's assets and liabilities.

### Governance

The Treasury department manages the financing, liquidity and interest rate risks on an integrated basis. 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 risk 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 the Bank 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' banking books. The system supports the calculation of the usual interest-rate-risk and liquidity-stress

metrics. These results are analysed on a daily basis and limit controls are carried out. Any breach of these limits is investigated in a timely fashion.

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 liquidity risk management is to maintain a healthy liquidity position which enables the Bank 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 Bank'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 Bank 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 Bank's LCR fluctuated between 83.7% and 164.4%, 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](http://www.juliusbaer.com) website (this will be available at the end of April 2018).

In managing its financing risks, the Bank aims to ensure that it has access to appropriate sources of financing at all times. At present, the Bank's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Bank would, however, quickly be able to access additional sources of refinancing at any time.

The 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 on page 16, 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 Bank carries out most of its activities are currently close to zero.

### Interest rate sensitivity positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF 1,000
<b>Interest sensitivity by time bands and 100 bp parallel increase</b>						
<b>CHF</b>						
2017	3,729	-4,025	36,032	59,118	-53,055	41,799
2016	3,160	-4,847	33,772	62,799	-44,532	50,352
<b>USD</b>						
2017	10,877	-2,123	-951	-44,772	14,267	-22,702
2016	10,999	-3,479	-4,607	-138,773	-799	-136,659
<b>EUR</b>						
2017	7,423	-1,815	-1,801	43,576	-5,922	41,461
2016	5,964	-3,413	-3,963	33,576	-2,656	29,508
<b>Other</b>						
2017	1,618	-2,350	-124	28,092	-66	27,170
2016	2,509	-1,588	-6,870	24,826	44	18,921

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 Bank took no mitigating action, the modelled effect on interest earnings would have been CHF -125.4 million at the end of 2017 (2016: CHF -175.0 million).

#### Hedging interest rate risks

The Bank 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 Bank 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 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 amounts to CHF 32.6 million (2016: CHF 58.0 million).

#### 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 are monitoring 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 Bank's reputation and minimise any financial loss to clients, the Bank 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 Bank entity being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Bank entity, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party.

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 Bank 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 risks. 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 Bank 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 policies 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 Bank 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 Bank 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 Bank's reputation and thus impair its franchise. The Bank's ability to conduct its business is critically dependent on the reputation it has established in the course of its more than 125 years. Maintaining its good reputation is therefore vitally important for the Bank, 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 Bank's and the Group's reputation.

#### **MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL**

For information about capital management including regulatory capital, refer to the respective section in the Annual Report 2017 of Julius Baer Group Ltd.

## KEY FIGURES

	2017	2016
Total capital minimum requirement (CHF m)	<b>2,115.5</b>	2,279.5
Total capital (mCHF)	<b>3,306.0</b>	3,024.2
- of which common equity tier 1 capital ratio (CHF m)	<b>2,955.2</b>	2,902.7
- of which tier 1 capital (CHF m)	<b>3,249.0</b>	2,950.4
Total risk weighted assets (CHF m)	<b>17,629.6</b>	18,966.2
Common equity tier 1 capital ratio (%)	<b>16.76</b>	15.28
Common equity tier 1 capital ratio (%) FINMA minimum capital requirement <sup>1</sup>	<b>7.80</b>	7.80
Tier 1 capital ratio (%)	<b>18.43</b>	15.53
Tier 1 capital ratio (%) FINMA minimum capital requirement <sup>1</sup>	<b>9.60</b>	9.60
Total capital ratio (%)	<b>18.75</b>	15.92
Total capital ratio (%) FINMA minimum capital requirement <sup>1</sup>	<b>12.00</b>	12.00
Countercyclical buffer ratio (%)	<b>0.28</b>	0.23
Countercyclical buffer ratio (%) FINMA minimum capital requirement <sup>2</sup>	<b>0.28</b>	0.23
Common equity tier 1 capital ratio incl. countercyclical buffer ratio (%)	<b>16.48</b>	15.04
Tier 1 capital ratio incl. countercyclical buffer ratio (%)	<b>18.15</b>	15.29
Total capital ratio incl. countercyclical buffer ratio (%)	<b>18.47</b>	15.68
Total capital ratio incl. countercyclical buffer ratio (%) FINMA minimum capital requirement <sup>2</sup>	<b>12.28</b>	12.23
Leverage ratio (%)	<b>3.6</b>	3.2
total requirement (CHF m)	<b>90,474.9</b>	91,777.1

<sup>1</sup> Categorisation according to the FINMA circular 2011/2 paragraphs 14 - 20b.

<sup>2</sup> At present, the Bank is also required to hold additional countercyclical CET1 capital buffers for mortgages on residential mortgages in Switzerland and the extended countercyclical buffer in the jurisdictions to which banks have a credit exposure which adds a further 0.28% (previous year 0.23%) to its minimum capital requirement of 12% of risk-weighted assets.

	Q4/2017 average	Q3/2017 average	Q2/2017 average	Q1/2017 average
Liquidity coverage ratio (%)	<b>126.9</b>	<b>102.9</b>	<b>126.7</b>	<b>138.8</b>
high quality liquid assets (CHF m)	<b>12,720.5</b>	<b>11,956.7</b>	<b>14,511.6</b>	<b>13,320.7</b>
net cash outflows (CHF m)	<b>10,026.5</b>	<b>11,616.6</b>	<b>11,451.3</b>	<b>9,600.0</b>
	Q4/2016 average	Q3/2016 average	Q2/2016 average	Q1/2016 average
Liquidity coverage ratio (%)	138.5	145.5	139.8	155.3
high quality liquid assets (CHF m)	18,177.3	17,673.4	15,485.8	17,020.1
net cash outflows (CHF m)	13,125.6	12,145.8	11,080.1	10,959.7

## ACCOUNTING POLICIES AND VALUATION PRINCIPLES

Amounts in the Bank's financial statements are stated in Swiss Francs. The accounting policies and valuation principles are based on the regulations of the Swiss Code of Obligations, on Swiss Banking Law and the Ordinance thereto, and on the guidelines of the Financial Market Supervisory Authority (FINMA) Circular 2015/1 'Accounting Banks'.

Bank Julius Baer & Co. Ltd., which has its headquarters in Zurich, Switzerland, applies the principles related to the statutory single-entity closing with reliable assessment.

### USE OF ESTIMATES IN PREPARING THE STATUTORY FINANCIAL STATEMENTS

In preparing the 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 financial statements and are discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and allowance for credit losses, pension assets and pension liabilities (measurement of defined benefit obligation), share-based payments, goodwill and other intangible assets (determination in a business combination and measurement of recoverable amount), 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) and contingent considerations.

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	<b>0.9745</b>	1.0164	<b>0.9795</b>	0.9875
EUR/CHF	<b>1.1702</b>	1.0720	<b>1.1160</b>	1.0890
GBP/CHF	<b>1.3182</b>	1.2559	<b>1.2750</b>	1.3280

### ACCOUNTING POLICIES

The Bank applies 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 current 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 expenses as incurred.

#### Foreign currency translation

In the individual financial statements of the 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.

### Reporting of transactions

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

### Cash

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

### Due from banks, due from customers and mortgages

Amounts due from banks are recognised at nominal value. Amounts due from customers and mortgages are initially recorded at cost, which in general is equal to the principal amount for originated receivables.

Amounts due from banks, due from customers and mortgages are deemed to be non-performing when a contractual payment has not been effected in full more than 90 days after the due date. The exposure is not considered impaired as the Bank believes that on the basis of the collateral available it is still covered.

*Specific allowances:* Receivables for which it is probable that, based on current information and events, the Bank will be unable to collect the whole amounts due according to the original contractual terms of the receivable agreement, are measured on an individual basis, and a specific allowance for credit losses is established for impaired amounts, if necessary.

Impairment is measured as the difference between the carrying amount of the receivable 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 receivable's original effective interest rate. Impairment is recognised in net interest income.

A write-off is made against the established specific valuation allowance when all or part of a receivable 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 prudently estimated default rates for each portfolio, which are based on internal credit ratings that are used for classifying the receivable. Changes in the general valuation allowances are recorded in net interest income.

In the balance sheet, the allowances for credit losses are offset against the corresponding receivables.

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

*Rating classes:* The internal credit ratings 1–10 form the basis for calculating valuation allowances. Receivables are allocated to one of the ten rating classes. In the case of receivables in rating classes 1–6, the debt is serviced, the advance rate of collateral is appropriate, and the repayment of the receivable claim is not doubtful. For these receivables, no specific valuation allowances are established. For the risks of classes 7 and 8, specific valuation allowances are established, provided that there is a certain risk that a loss could arise. The credit risks of classes 9 and 10 are very high, and specific valuation allowances are established.



*Collaterals received:* Generally, the Bank only lends money to clients on a collateralised basis in the form of Lombard loans or mortgage loans. The fair values of the securities collaterals are determined as follows:

- for the securities whose prices are quoted in an active market, the fair value is determined directly from the quoted market prices;
- for securities 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. 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; and
- for certain securities, 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.

The fair value of the real estate collateral pledged is measured based on carefully evaluated market values.

The fair value of the collateral pledged for the exposures, including outstanding interest, equals or exceeds the respective balances.

#### **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 Bank's normal credit risk process.

Securities borrowed as well as securities received by the Bank as collateral under securities lending transactions are only recorded in the balance sheet

if the Bank 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 Bank as collateral under securities borrowing transactions are only derecognised from the balance sheet if the Bank 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 Bank'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**

Repurchase transactions and reverse repurchase transactions are considered secured financing transactions and are recorded at the value of the cash collateral provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counterparties are subject to the Bank'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 Bank'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 result on trading activities and the fair value option.

Interest and dividend income and interest expense from trading positions are included in gross result on interest operations.

Precious metals held for trading purposes are measured at fair value less costs to sell with all changes in the fair value recognised in result on trading activities and the fair value option.

### **Financial assets/liabilities designated at fair value**

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

- they are measured at fair value and risk-managed similar to trading positions;
- there is an economic hedge relationship between the respective assets and liabilities which widely reduces or eliminates an accounting mismatch; and
- the possible effect of changes in the own credit rating on the fair value is not recognised in the income statement.

The Bank measures its issued structured products containing a debt instrument and an embedded derivative at fair value, with changes in fair value recognised in result on trading activities and the fair value option.

In addition, the Bank reports assets and liabilities related to certain structured investments where the client bears all the related risks and rewards from the investments, as designated at fair value.

### **Derivative financial instruments and hedging**

The Bank employs the prevailing regulations of the International Financial Reporting Standards (IFRS) regarding the treatment of derivative financial instruments including 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. 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 result on trading activities and the fair value option.

The Bank 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;
- 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%; and
- high probability of the underlying forecast transaction.

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 Bank. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They are therefore reported as trading positions. Changes in value are recorded in the income statement in the corresponding period.

### **Financial investments**

Security positions, including money market instruments, which are not held for trading purposes, are reported as financial investments.

*Money market instruments:* Money market instruments are measured at amortised cost. Interest on these instruments is accrued using the effective interest method, including the amortisation of premiums and discounts and is recognised in gross result on interest operations.

*Debt and equity instruments:* Debt and equity instruments are measured at the lower of cost or fair value. Changes in value are recognised under the item other ordinary income or other ordinary expenses. Write-ups are recorded up to the initial cost of the investments provided that the below-cost fair value subsequently rises again. Realised gains and losses are included under the item results from the sale of financial investments. Interest on debt securities is accrued and, together with dividend income on equity securities, recognised in gross result on interest operations.

### **Participations**

Participations are investments in the equity of enterprises which are intended as a long-term investment irrespective of the percentage of voting shares held. They are recognised at initial cost less economically necessary depreciation.

### **Tangible fixed assets**

Tangible fixed assets include bank premises, IT, software, 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.

Software that is purchased is capitalised and depreciated over its estimated useful life. Minor purchases are debited directly to general expenses. Similarly to purchased software, internally generated software is also capitalised if it is probable that the future economic benefits that are attributable to the asset will flow to the Bank and that the costs of the asset can be identified and measured reliably. The capitalised software is depreciated over its useful life which does not exceed ten years.

Subsequent expenditure on an item of property and equipment is recognised in the carrying value of the item if it is probable that the Bank 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.

### **Intangible assets**

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 amortised using the straight-line method over a period of five years, in justified cases also over a maximum period of ten years.

*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.

On each balance sheet date, goodwill and customer relationships are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying amount of the goodwill or client relationships is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

### **Due to banks and due to customers**

Amounts due to banks and customers are recognised at nominal value. Interest is debited to interest expenses on an accrual basis.

### **Taxes**

The current taxes on the result for the period (income taxes) as well as the capital taxes are determined in accordance with the local tax regulations for calculating profit and the relevant capital and are recognised as expense in the accounting period in which the related profit arises. Direct taxes owed on current profit are recognised as accrued expenses.

### **Provisions**

A provision is recognised if, as a result of a past event, the Bank 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 provisions and losses.

Restructuring provisions are recognised if the general criteria for the recognition of a provision are fulfilled and a binding decision of the Board of Directors regarding the restructuring measures has been taken. They are generally expensed through personnel expense.

### **Post-employment benefits**

The Bank applies IAS 19 Employee benefits for the recognition and measurement of its post-employment benefits (pension plans). However, amounts which are recognised in other comprehensive income directly in equity for IFRS purposes are recognised in the income statement for the purpose of these financial statements.

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 Bank 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. The Bank 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 also recognised in the income statement and 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 Bank.

### **Share-based payments**

The Bank 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 equity instruments are not remeasured for subsequent changes in the fair value of the underlying instruments.

The Bank applies equity-settled accounting for the services received from its employees, with a corresponding increase recognised in its equity as a contribution from the parent.

### **Share capital**

The share capital comprises all issued, fully paid shares of Bank Julius Baer & Co. Ltd.

### **Statutory capital reserve**

The statutory capital reserve represents the additional proceeds (premium) received from the issue of shares by Bank Julius Baer & Co. Ltd. and from the exercise of conversion rights and warrants on Bank Julius Baer & Co. Ltd.

### **Statutory retained earnings reserve**

The statutory retained earnings reserve represents retained earnings which have been accumulated according to the legally mandatory requirements.

### **Voluntary retained earnings reserve**

The voluntary retained earnings reserve represents retained earnings which have been accumulated in addition to the legally mandatory requirements.

### **Profit carried forward**

The profit carried forward represents profits from previous years not allocated to the statutory and voluntary retained earnings reserves and not distributed to the shareholders.

### **Irrevocable commitments and contingent liabilities**

The irrevocable commitments relate to unutilised irrevocable commitments to extend credit.

The contingent liabilities comprise, among other instruments, credit guarantees in the form of obligations under avals, sureties and guarantees, including guarantee obligations in the form of irrevocable letters of credit, bid and performance bonds, and irrevocable liabilities under documentary letters of credit.

These items are recorded at nominal value. Provisions are established for foreseeable risks.

### **Fiduciary transactions**

Fiduciary transactions consist of investments, credits and participations that the Bank enters into or grants in its own name but for the account of and at the risk of the client as per written instruction.

### **CHANGES IN ACCOUNTING POLICIES AND VALUATION PRINCIPLES**

There have been no material changes to the Bank's accounting policies in 2017.

## NOTES TO THE FINANCIAL STATEMENTS

### 1 GROSS RESULT ON INTEREST OPERATIONS

	2017 CHF 1,000	2016 CHF 1,000	Change CHF 1,000	Change %
Interest income on cash	-12,532	-35,749	23,217	64.9
- of which negative interest	-12,532	-35,749	23,217	64.9
Interest income on amounts due from banks	40,617	41,455	-838	-2.0
- of which negative interest	-335	-126	-209	-165.9
Interest income on loans	582,172	458,821	123,351	26.9
- of which negative interest	-299	-224	-75	-33.5
Interest income on financial investments available-for-sale	276,763	303,532	-26,769	-8.8
<b>Total interest income using the effective interest method</b>	<b>887,020</b>	768,059	118,961	15.5
Dividend income on financial investments available-for-sale	6,764	7,283	-519	-7.1
Interest income on trading portfolios	31,777	29,784	1,993	6.7
Dividend income on trading portfolios	200,396	196,057	4,339	2.2
<b>Total interest and dividend income</b>	<b>1,125,957</b>	1,001,183	124,774	12.5
Interest expense on amounts due to banks	25,566	10,517	15,049	143.1
- of which negative interest	-3,587	-673	-2,914	-
Interest expense on amounts due to customers	121,468	76,884	44,584	58.0
- of which negative interest	-11,740	-7,115	-4,625	-65.0
<b>Total interest expense using the effective interest method</b>	<b>147,034</b>	87,401	59,633	68.2
<b>Total</b>	<b>978,923</b>	913,782	65,141	7.1

Negative interest related to assets is recognised in interest income as a reduction of the interest income. Negative interest related to liabilities is

recognised in interest expense as a reduction of the interest expense.

### 2 RESULT ON TRADING ACTIVITIES AND THE FAIR VALUE OPTION

	2017 CHF 1,000	2016 CHF 1,000	Change CHF 1,000	Change %
Debt instruments	74,995	50,483	24,512	48.6
Equity instruments	-145,862	-169,424	23,562	-13.9
Foreign exchange	350,315	439,172	-88,857	-20.2
<b>Total</b>	<b>279,448</b>	320,231	-40,783	-12.7

In each case, the item includes results from trading in the corresponding derivative instruments.

### 3 PERSONNEL EXPENSES

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Salaries and bonuses	<b>900,141</b>	941,250	-41,109	-4.4
Contributions to retirement plans (defined benefits)	<b>69,939</b>	11,174 <sup>1</sup>	58,765	525.9
Contributions to staff pension plans (defined contributions)	<b>19,442</b>	17,883	1,559	8.7
Change in net defined pension plans liability	<b>-21,934</b>	-124,425	102,491	-82.4
Other social security contributions	<b>66,142</b>	64,021	2,121	3.3
Share-based payments	<b>52,032</b>	48,268	3,764	7.8
Other personnel expenses	<b>23,972</b>	14,182	9,790	69.0
<b>Total</b>	<b>1,109,734</b>	972,353	137,381	14.1

<sup>1</sup> Including the effect of a plan amendment in the amount of CHF 61.5 million (see Note 17).

### 4 GENERAL EXPENSES

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Occupancy expense	<b>68,202</b>	64,643	3,559	5.5
IT and other equipment expense	<b>63,314</b>	60,868	2,446	4.0
Information, communication and advertising expense	<b>152,287</b>	146,669	5,618	3.8
Service expense, fees and taxes	<b>264,345</b>	248,964	15,381	6.2
<i>of which fees of audit firm</i>				
- Audit fees	<b>4,163</b>	3,782	381	10.1
- Other fees	<b>833</b>	715	118	16.5
Other general expenses	<b>1,469</b>	1,233	236	19.1
<b>Total</b>	<b>549,617</b>	522,377	27,240	5.2



## 5 PROVISIONS AND LOSSES

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Operating losses	<b>4,806</b>	4,057	749	18.5
Provision legal risks	<b>4,546</b>	3,105	1,441	46.4
Provision other	<b>12,500</b>	743	11,757	1,582.4
<b>Total</b>	<b>21,852</b>	7,905	13,947	176.4

## 6 TAXES

	<b>2017</b> <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Income taxes	<b>131,013</b>	105,714	25,299	23.9
Capital taxes	<b>4,000</b>	4,000	-	-
<b>Total</b>	<b>135,013</b>	109,714	25,299	23.1

On a total of CHF 650.2 million (2016: CHF 617.8 million) of net profit before taxes, Bank Julius Baer & Co. Ltd. recognised CHF 135.0 million (2016: CHF 109.7 million) of taxes which leads to an effective tax rate of 20.8% (2016: 17.8%).

The Bank 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.

7 SECURITIES LENDING AND BORROWING TRANSACTIONS/  
 REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
<b>Receivables</b>				
Receivables from cash collateral provided in securities borrowing transactions	<b>56,642</b>	-	56,642	-
Receivables from cash collateral provided in reverse repurchase transactions	<b>2,624</b>	17,622	-14,998	-85.1
<b>Total</b>	<b>59,266</b>	17,622	41,644	236.3
<b>Obligations</b>				
Obligations to return cash collateral received in securities lending transactions	<b>988,140</b>	1,301,198	-313,058	-24.1
Obligations to return cash collateral received in repurchase transactions	<b>206,347</b>	248,349	-42,002	-16.9
<b>Total</b>	<b>1,194,487</b>	1,549,547	-355,060	-22.9
<b>Securities collateral</b>				
Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions	<b>2,470,107</b>	2,342,256	127,851	5.5
<i>of which securities the right to pledge or sell has been granted without restriction</i>	<b>2,470,107</b>	2,342,256	127,851	5.5
<i>of which recognised in trading assets</i>	<b>1,547,715</b>	1,543,174	4,541	0.3
<i>of which recognised in financial investments available-for-sale</i>	<b>922,392</b>	799,082	123,310	15.4
Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions	<b>2,872,302</b>	2,138,694	733,608	34.3
<i>of which repledged</i>	<b>2,726,952</b>	1,923,922	803,030	41.7
<i>of which resold</i>	<b>107,755</b>	108,368	-613	-0.6

## 8 LISTING OF COLLATERAL

	Type of collateral			Total CHF 1,000
	Mortgage collateral CHF 1,000	Other collateral CHF 1,000	Without collateral CHF 1,000	
<b>Balance sheet items<sup>1</sup></b>				
Due from banks	-	5,951,508	2,288,627	<b>8,240,135</b>
Due from customers	101,764	34,771,544	93,412	<b>34,966,720</b>
Mortgages	7,389,360	3,785	5,980	<b>7,399,125</b>
<i>of which residential real estate</i>	<i>6,515,419</i>	-	-	<b><i>6,515,419</i></b>
<i>of which office and business premises</i>	<i>255,035</i>	-	-	<b><i>255,035</i></b>
<i>of which trade and industrial property</i>	<i>617,577</i>	-	-	<b><i>617,577</i></b>
<i>of which other</i>	<i>1,329</i>	<i>3,785</i>	<i>5,980</i>	<b><i>11,094</i></b>
<b>Total gross balance sheet items 31.12.2017</b>	<b>7,491,124</b>	<b>40,726,837</b>	<b>2,388,019</b>	<b>50,605,980</b>
Total gross balance sheet items 31.12.2016	7,484,808	36,901,605	4,186,629	48,573,042

<sup>1</sup> The amounts presented in this table are gross of valuation allowances and therefore not comparable to the net amounts in the balance sheet.

### Allowance for credit losses

Specific valuation allowances	-	-	17,248	<b>17,248</b>
General valuation allowances	5,354	8,044	-	<b>13,398</b>
<b>Total allowance for credit losses 31.12.2017</b>	<b>5,354</b>	<b>8,044</b>	<b>17,248</b>	<b>30,646</b>
<b>Total balance sheet items 31.12.2017</b>	<b>7,485,770</b>	<b>40,718,793</b>	<b>2,370,771</b>	<b>50,575,334</b>
Total balance sheet items 31.12.2016	7,470,667	36,891,451	4,137,451	48,499,569

### Off-balance sheet items

Contingent liabilities	-	1,121,162	51,165	<b>1,172,327</b>
Irrevocable commitments	-	440,505	248,887	<b>689,392</b>
Obligation to pay up shares and make further contributions	-	-	50	<b>50</b>
<b>Total off-balance sheet items 31.12.2017</b>	<b>-</b>	<b>1,561,667</b>	<b>300,102</b>	<b>1,861,769</b>
Total off-balance sheet items 31.12.2016	-	1,597,854	394,877	1,992,731

	Gross claims CHF 1,000	Estimated proceeds from liquidation of collateral CHF 1,000	Net claims CHF 1,000	Specific valuation allowances CHF 1,000
<b>Impaired receivables 31.12.2017</b>	<b>30,139</b>	<b>12,720</b>	<b>17,419</b>	<b>17,248</b>
Impaired receivables 31.12.2016	64,758	15,564	49,194	49,178

## 9 TRADING PORTFOLIOS

	<b>31.12.2017</b> CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
<b>Trading assets</b>				
Debt instruments	<b>2,274,439</b>	1,416,096	858,343	60.6
<i>of which quoted</i>	<b>1,932,769</b>	1,338,560	594,209	44.4
<i>of which unquoted</i>	<b>341,670</b>	77,536	264,134	340.7
Equity instruments	<b>9,087,205</b>	5,942,002	3,145,203	52.9
<i>of which quoted</i>	<b>7,093,640</b>	5,561,164	1,532,476	27.6
<i>of which unquoted</i>	<b>1,993,565</b>	380,838	1,612,727	423.5
Precious metals	<b>1,495,926</b>	398,844	1,097,082	275.1
<b>Total</b>	<b>12,857,570</b>	7,756,942	5,100,628	65.8
<i>of which measurement is based on a valuation model</i>	<b>3,842,211</b>	826,813	3,015,398	364.7
<i>of which repo-eligible securities</i>	<b>107,766</b>	125,698	-17,932	-14.3
<b>Trading liabilities</b>				
Short positions - debt	<b>9,365</b>	47,955	-38,590	-80.5
<i>of which quoted</i>	<b>9,365</b>	44,723	-35,358	-79.1
<i>of which unquoted</i>	-	3,232	-3,232	-100.0
Short positions - equity	<b>126,466</b>	110,998	15,468	13.9
<i>of which quoted</i>	<b>82,443</b>	95,964	-13,521	-14.1
<i>of which unquoted</i>	<b>44,023</b>	15,034	28,989	192.8
<b>Total</b>	<b>135,831</b>	158,953	-23,122	-14.5
<i>of which measurement is based on a valuation model</i>	<b>44,023</b>	18,409	25,614	139.1

## 10 FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE

	<b>31.12.2017</b> CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000	Change %
<b>Financial assets designated at fair value</b>				
Financial investments	<b>265,571</b>	252,364	13,207	5.2
<i>of which private equity</i>	<b>142,636</b>	94,780	47,856	50.5
<i>of which funds</i>	<b>122,935</b>	157,584	-34,649	-22.0
<b>Total</b>	<b>265,571</b>	252,364	13,207	5.2
<i>of which measurement is based on a valuation model</i>	<b>251,541</b>	124,027	127,514	102.8
<b>Financial liabilities designated at fair value</b>				
Issued certificates	<b>1,597,972</b>	1,197,414	400,558	33.5
<i>of which interest instruments</i>	<b>600,365</b>	98,827	501,538	507.5
<i>of which equity instruments</i>	<b>997,607</b>	1,098,587	-100,980	-9.2
Structured products	<b>10,238,752</b>	7,247,029	2,991,723	41.3
<i>of which interest instruments</i>	<b>8,095,528</b>	5,800,812	2,294,716	39.6
<i>of which equity instruments</i>	<b>1,128,282</b>	361,122	767,160	212.4
<i>of which forex instruments</i>	<b>1,014,942</b>	1,085,095	-70,153	-6.5
<b>Total</b>	<b>11,836,724</b>	8,444,443	3,392,281	40.2
<i>of which measurement is based on a valuation model</i>	<b>11,836,724</b>	8,444,443	3,392,281	40.2

## 11 DERIVATIVE FINANCIAL INSTRUMENTS

### Derivatives held for trading

	31.12.2017			31.12.2016		
	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m
<b>Interest rate derivatives</b>						
Swaps	94.7	84.4	12,870	108.8	103.4	8,797
Futures	1.1	1.5	697	1.4	1.7	792
Options (OTC)	11.0	12.9	196	13.1	6.9	262
<b>Total</b>	<b>106.8</b>	<b>98.8</b>	<b>13,763</b>	<b>123.3</b>	<b>112.0</b>	<b>9,851</b>
<b>Foreign exchange derivatives</b>						
Forward contracts	526.8	538.3	70,863	757.3	675.8	66,013
Combined interest rate/currency swaps	8.9	2.8	621	-	5.0	268
Futures	0.5	0.6	121	0.1	0.1	98
Options (OTC)	320.2	186.1	33,949	460.7	362.9	39,216
<b>Total</b>	<b>856.4</b>	<b>727.8</b>	<b>105,554</b>	<b>1,218.1</b>	<b>1,043.8</b>	<b>105,595</b>
<b>Precious metals derivatives</b>						
Forward contracts	45.2	31.9	2,876	18.9	61.7	1,687
Futures	1.2	0.3	812	1.3	-	180
Options (OTC)	129.0	19.7	2,837	190.9	37.3	2,789
Options (traded)	-	4.0	166	-	-	-
<b>Total</b>	<b>175.4</b>	<b>55.9</b>	<b>6,691</b>	<b>211.1</b>	<b>99.0</b>	<b>4,656</b>
<b>Equity/indices derivatives</b>						
Futures	11.1	11.7	1,104	48.5	43.0	1,812
Options (OTC)	257.7	289.4	11,114	176.2	181.3	10,304
Options (traded)	489.9	750.3	12,147	853.2	670.4	9,526
<b>Total</b>	<b>758.7</b>	<b>1,051.4</b>	<b>24,365</b>	<b>1,077.9</b>	<b>894.7</b>	<b>21,642</b>
<b>Credit derivatives</b>						
Credit default swaps	0.2	6.6	316	0.1	6.7	295
Total return swaps	2.4	-	70	2.3	0.2	67
Other	-	-	-	-	10.2	39
<b>Total</b>	<b>2.6</b>	<b>6.6</b>	<b>386</b>	<b>2.4</b>	<b>17.1</b>	<b>401</b>
<b>Other derivatives</b>						
Futures	0.8	5.3	169	0.5	2.7	144
<b>Total</b>	<b>0.8</b>	<b>5.3</b>	<b>169</b>	<b>0.5</b>	<b>2.7</b>	<b>144</b>
<b>Total derivatives held for trading</b>	<b>1,900.7</b>	<b>1,945.8</b>	<b>150,928</b>	<b>2,633.3</b>	<b>2,169.3</b>	<b>142,289</b>

**Derivatives held for hedging**

	31.12.2017			31.12.2016		
	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m
<b>Interest rate derivatives</b>						
Swaps	17.1	47.9	2,591	10.8	71.9	2,171
<b>Total</b>	<b>17.1</b>	<b>47.9</b>	<b>2,591</b>	<b>10.8</b>	<b>71.9</b>	<b>2,171</b>
<b>Total derivatives held for hedging</b>	<b>17.1</b>	<b>47.9</b>	<b>2,591</b>	<b>10.8</b>	<b>71.9</b>	<b>2,171</b>
<b>Total derivative financial instruments</b>	<b>1,917.8</b>	<b>1,993.7</b>	<b>153,519</b>	<b>2,644.1</b>	<b>2,241.2</b>	<b>144,460</b>

	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m	Positive replacement value CHF m	Negative replacement value CHF m	Contract volume CHF m
<b>Analysis according to remaining life</b>						
up to 12 months	1,453.1	1,605.4	138,085	2,117.8	1,737.5	131,135
1 to 5 years	389.1	297.6	12,490	427.4	355.0	9,962
over 5 years	75.6	90.7	2,944	98.9	148.7	3,363
<b>Total</b>	<b>1,917.8</b>	<b>1,993.7</b>	<b>153,519</b>	<b>2,644.1</b>	<b>2,241.2</b>	<b>144,460</b>
<i>of which measurement is based on a valuation model</i>	<b>1,903.1</b>	<b>1,974.4</b>		<b>2,592.4</b>	<b>2,193.7</b>	
<i>after netting</i>	<b>1,917.8</b>	<b>1,993.7</b>		<b>2,644.1</b>	<b>2,241.2</b>	

	31.12.2017			31.12.2016		
	Central clearing houses CHF m	Banks and brokers CHF m	Other clients CHF m	Central clearing houses CHF m	Banks and brokers CHF m	Other clients CHF m
<b>After netting</b>						
Positive replacement value after netting	-	1,239.3	678.5	-	1,859.9	784.2
<b>Total</b>	<b>-</b>	<b>1,239.3</b>	<b>678.5</b>	<b>-</b>	<b>1,859.9</b>	<b>784.2</b>

## 12A FINANCIAL INVESTMENTS

	<b>31.12.2017</b> Carrying value CHF 1,000	31.12.2016 Carrying value CHF 1,000	<b>31.12.2017</b> Fair value CHF 1,000	31.12.2016 Fair value CHF 1,000
<b>Money market instruments</b>	<b>2,190,509</b>	3,652,860	<b>2,191,103</b>	3,654,113
Government and agency bonds	<b>2,258,046</b>	3,375,729	<b>2,258,669</b>	3,380,889
Financial institution bonds	<b>3,957,980</b>	6,148,074	<b>3,969,354</b>	6,170,538
Corporate bonds	<b>3,427,342</b>	4,489,302	<b>3,436,671</b>	4,500,031
Other bonds	-	26,224	-	26,389
<b>Debt instruments</b>	<b>9,643,368</b>	14,039,329	<b>9,664,694</b>	14,077,847
<i>of which quoted</i>	<b>9,095,623</b>	13,002,154	<b>9,115,533</b>	13,038,233
<i>of which unquoted</i>	<b>547,745</b>	1,037,175	<b>549,161</b>	1,039,614
<i>of which valued at lower of cost or fair value</i>	<b>9,643,368</b>	14,039,329	<b>9,664,694</b>	14,077,847
<b>Equity instruments</b>	<b>32,663</b>	33,089	<b>132,507</b>	122,813
<i>of which unquoted</i>	<b>32,663</b>	33,089	<b>132,507</b>	122,813
<b>Total</b>	<b>11,866,540</b>	17,725,278	<b>11,988,304</b>	17,854,773
<i>of which repo-eligible securities</i>	<b>606,760</b>	1,062,004		

## 12B FINANCIAL INVESTMENTS – CREDIT RATINGS

			<b>31.12.2017</b> CHF 1,000	31.12.2016 CHF 1,000	Change CHF 1,000
<b>Debt instruments by the Bank's credit rating classes</b>	<b>Fitch, S&amp;P</b>	<b>Moody's</b>			
1-2	AAA – AA-	Aaa – Aa3	<b>7,027,350</b>	9,243,143	-2,215,793
3	A+ – A-	A1 – A3	<b>2,466,123</b>	4,447,923	-1,981,800
4	BBB+ – BBB-	Baa1 – Baa3	<b>126,338</b>	266,396	-140,058
5	BB+ – BB-	Ba1 – Ba3	<b>16,834</b>	51,848	-35,014
Unrated			<b>6,723</b>	30,019	-23,296
<b>Total</b>			<b>9,643,368</b>	14,039,329	-4,395,961



### 13 GOODWILL, INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

	Goodwill CHF 1,000	Customer relationships CHF 1,000	Total intangible assets CHF 1,000	Bank premises CHF 1,000	Software CHF 1,000	Other tangible fixed assets CHF 1,000	Total tangible fixed assets CHF 1,000
<b>Historical cost</b>							
Balance on 01.01.2016	1,516,085	1,389,192	2,905,277	305,701	552,162	158,231	1,016,094
Additions	-	-	-	4,187	137,564	23,526	165,277
Disposals/transfers <sup>1</sup>	-	-	-	-	18,468	9,732	28,200
Balance on 31.12.2016	1,516,085	1,389,192	2,905,277	309,888	671,258	172,025	1,153,171
Additions	-	-	-	3,546	140,222	16,956	160,724
Acquisition of subsidiaries	-	-	-	-	-	38 <sup>2</sup>	38
Disposals/transfers <sup>1</sup>	-	-	-	-	980	15,084	16,064
Balance on 31.12.2017	1,516,085	1,389,192	2,905,277	313,434	810,500	173,935	1,297,869

#### Depreciation and amortisation

Balance on 01.01.2016	741,922	933,717	1,675,639	79,724	328,082	121,877	529,683
Charge for the period	78,012	71,806	149,818	9,571	32,691 <sup>3</sup>	19,968 <sup>3</sup>	62,230
Disposals/transfers <sup>1</sup>	-	-	-	-	18,468	9,732	28,200
Balance on 31.12.2016	819,934	1,005,523	1,825,457	89,295	342,305	132,113	563,713
Charge for the period	77,767	71,806	149,573	9,944	42,255 <sup>4</sup>	22,755 <sup>4</sup>	74,954
Disposals/transfers <sup>1</sup>	-	-	-	-	980	15,084	16,064
Balance on 31.12.2017	897,701	1,077,329	1,975,030	99,239	383,580	139,784	622,603

#### Carrying value

Balance on 31.12.2016	696,151	383,669	1,079,820	220,593	328,953	39,912	589,458
<b>Balance on 31.12.2017</b>	<b>618,384</b>	<b>311,863</b>	<b>930,247</b>	<b>214,195</b>	<b>426,920</b>	<b>34,151</b>	<b>675,266</b>

<sup>1</sup> Includes derecognition of fully depreciated assets

<sup>2</sup> In July 2017 the Bank integrated WMPartners Wealth Management Ltd., Zurich

<sup>3</sup> Includes impairment of CHF 2.5 million related to software and other property and equipment not used anymore

<sup>4</sup> Includes impairment of CHF 0.4 million related to software and other property and equipment not used anymore

#### 14 OTHER ASSETS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Compensation account	<b>32,584</b>	60,260	-27,676	-45.9
Withholding taxes, VAT and other taxes	<b>1,075,166</b>	156,222	918,944	-
Other	<b>102,063</b>	98,507	3,556	3.6
<b>Total</b>	<b>1,209,813</b>	314,989	894,824	284.1

#### 15 OTHER LIABILITIES

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Compensation account	<b>9,067</b>	-	9,067	-
Withholding taxes, VAT and other taxes	<b>41,703</b>	37,487	4,216	11.2
Other	<b>77,854</b>	63,369	14,485	22.9
<b>Total</b>	<b>128,624</b>	100,856	27,768	27.5

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

	Carrying value CHF 1,000	<b>31.12.2017</b> Effective commitment CHF 1,000	Carrying value CHF 1,000	31.12.2016 Effective commitment CHF 1,000
Securities	<b>710,941</b>	<b>710,941</b>	917,567	917,567
Other	<b>4,000</b>	<b>4,000</b>	6,897	6,897
<b>Total</b>	<b>714,941</b>	<b>714,941</b>	924,464	924,464

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

17 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

The Bank 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 company 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 employees' 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 Bank's financial statements.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Bank. In case the plans become significantly underfunded over an extended time period according to the Swiss pension law basis, the Bank 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 1,000	2016 CHF 1,000
<b>1. Development of pension obligations and assets</b>		
Present value of defined benefit obligation at the beginning of the year	-2,537,945	-2,461,213
Current service cost	-66,598	-65,032
Employees' contribution	-41,689	-37,797
Interest expense on defined benefit obligation	-14,193	-18,547
Past service cost, curtailments, settlements, plan amendments	-1,312	56,647
Benefits paid (incl. benefits paid directly by employer)	50,944	34,091
Transfer payments in/out	-133	-493
Experience gains/(losses) on defined benefit obligation	-61,406	-29,089
Actuarial gains/(losses) arising from change in demographic assumptions	-99,076 <sup>1</sup>	9,262
Actuarial gains/(losses) arising from change in financial assumptions	14,438	-29,041
Translation differences	-1,063	3,267
Present value of defined obligation at the end of the year	-2,758,033	-2,537,945
<i>whereof due to active members</i>	-1,823,311	-1,638,201
<i>whereof due to deferred members</i>	-13,682	-13,581
<i>whereof due to pensioners</i>	-921,040	-886,163
Fair value of plan assets at the beginning of the year	2,418,510	2,216,507
Interest income on plan assets	13,746	17,273
Employees' contributions	41,689	37,797
Employer's contributions	86,627	100,833
Curtailments, settlements, plan amendments	-623	-606
Benefits paid by fund	-50,944	-34,091
Transfer payments in/out	133	493
Administration cost (excluding asset management cost)	-959	-909
Return on plan assets (excl. interest income)	151,290	83,634
Translation differences	763	-2,421
Fair value of plan assets at the end of the year	2,660,232	2,418,510

<sup>1</sup> In 2017, the Bank 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 91.0 million which was recognised in other comprehensive income.

	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000
<b>2. Balance sheet</b>		
Fair value of plan assets	2,660,232	2,418,510
Present value of funded obligation	-2,758,033	-2,537,945
Net defined benefit asset/(liability) <sup>1</sup>	-97,801	-119,435

<sup>1</sup> This amount has been recognised as a provision under Swiss GAAP (see Note 18).

	2017 CHF 1,000	2016 CHF 1,000
<b>3. Income statement</b>		
Current service cost (employer)	-66,598	-65,032
Interest expense on defined benefit obligation	-14,193	-18,547
Past service cost, curtailments, settlements, plan amendments	-1,935	56,041 <sup>1</sup>
Interest income on plan assets	13,746	17,273
Administration cost (excluding asset management cost)	-959	-909
Defined benefit cost recognised in the income statement	-69,939	-11,174
<i>whereof service cost</i>	-69,492	-9,900
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-447	-1,274
<b>Expense recognised in the income statement</b>	<b>-69,939</b>	<b>-11,174</b>

<sup>1</sup> In 2016, the Bank 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 61.5 million, which was recognised in the income statement.

	2017 CHF 1,000	2016 CHF 1,000
<b>4. Movement in defined benefit liability</b>		
Net defined benefit asset/(liability) at the beginning of the year	-119,435	-244,706
Translation differences	-300	846
Defined benefit cost recognised in the income statement	-69,939	-11,174
Employer's contributions	86,627	100,833
Remeasurements of the net defined benefit liability/(asset)	5,246	34,766
<b>Amounts recognised in the balance sheet<sup>1</sup></b>	<b>-97,801</b>	<b>-119,435</b>

	2017 CHF 1,000	2016 CHF 1,000
<b>Remeasurements of the net defined benefit liability/(asset)</b>		
Actuarial gains/(losses) of defined benefit obligation	-146,044	-48,868
Return on plan assets excl. interest income	151,290	83,634
<b>Total recognised in other comprehensive income<sup>2</sup></b>	<b>5,246</b>	<b>34,766</b>

<sup>1</sup> This amount has been recognised as a provision under Swiss GAAP (see Note 18).

<sup>2</sup> This amount has been recognised in the income statement under Swiss GAAP.

	2017 CHF 1,000	2016 CHF 1,000
<b>5. Composition and fair value of plan assets</b>		
Cash	129,651	119,619
Debt instruments	691,900	729,530
Equity instruments	872,208	726,090
Real estate	446,019	398,408
Alternative investments	285,037	262,940
Other	235,417	181,923
<b>Total</b>	<b>2,660,232</b>	<b>2,418,510</b>

	2017 <i>in %</i>	2016 <i>in %</i>
<b>6. Aggregation of assets – quoted market prices in active markets</b>		
Cash	<b>4.88</b>	4.95
Debt instruments	<b>22.74</b>	28.90
Equity instruments	<b>32.82</b>	30.02
Real estate	<b>8.09</b>	7.45
Other	<b>8.33</b>	12.72
<b>Total</b>	<b>76.86</b>	84.04

	2017 <i>CHF 1,000</i>	2016 <i>CHF 1,000</i>
<b>7. Sensitivities</b>		
Decrease of discount rate - 0.25%		
Effect on defined benefit obligation	<b>-77,145</b>	-66,953
Effect on service cost	<b>-2,680</b>	-2,276
Increase of discount rate + 0.25%		
Effect on defined benefit obligation	<b>72,966</b>	63,369
Effect on service cost	<b>2,515</b>	2,143
Decrease of salary increase - 0.25%		
Effect on defined benefit obligation	<b>9,469</b>	8,698
Effect on service cost	<b>919</b>	864
Increase of salary increase + 0.25%		
Effect on defined benefit obligation	<b>-9,685</b>	-8,898
Effect on service cost	<b>-941</b>	-885
Life expectancy		
Increase in longevity by one additional year	<b>57.7</b>	52.6

**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 99% (2016: 99%) of all benefit obligations and plan assets:

	<b>2017</b>	2016
Discount rate	<b>0.60%</b>	0.55%
Average future salary increases	<b>0.50%</b>	0.50%
Future pension increases	<b>0.00%</b>	0.00%
Duration (years)	<b>15</b>	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 84.6 million.

**Defined contribution pension plans**

Bank Julius Baer & Co. Ltd. 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 19.4 million during the 2017 financial year (2016: CHF 17.9 million).

**Outstanding liabilities to pension plans**

The Bank had outstanding liabilities to various pension plans in the amount of CHF 4.6 million (2016: CHF 2.4 million).

## 18 VALUATION ALLOWANCES AND PROVISIONS

	Balance on 01.01.2017 CHF 1,000	Specific usage CHF 1,000	Currency differences CHF 1,000	Recoveries, doubtful interest CHF 1,000	New creation charged to income statement CHF 1,000	Reversals credited to income statement CHF 1,000	<b>Balance on 31.12.2017 CHF 1,000</b>
Pension obligations	119,435	-	-	-	42,813	64,447	<b>97,801</b>
Legal risks	7,358	2,697	-	7	5,924	1,378	<b>9,214</b>
Other	2,472	242	-	-	12,500	-	<b>14,730</b>
<b>Total provisions</b>	<b>129,265</b>	<b>2,939</b>	<b>-</b>	<b>7</b>	<b>61,237</b>	<b>65,825</b>	<b>121,745</b>
<b>Allowances for credit losses</b>	<b>73,473</b>	<b>34,406</b>	<b>-</b>	<b>731</b>	<b>2,676</b>	<b>11,828</b>	<b>30,646</b>
<i>of which specific valuation allowances</i>	<i>49,178</i>	<i>34,406</i>	<i>-</i>	<i>731</i>	<i>2,467</i>	<i>722</i>	<i>17,248</i>
<i>of which general valuation allowances</i>	<i>24,295</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>209</i>	<i>11,106</i>	<i>13,398</i>

### Introduction

The Bank 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 Bank 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 Bank'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 Bank is confronted with information and clarification requests from authorities with respect to certain topics. The Bank 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 Bank is exposed. The additional risks not presently known or risks and proceedings currently deemed immaterial may also impair the

Bank'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 Bank's business, results of operations, financial condition and prospects.

### Legal proceedings/contingent liabilities

The Bank 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 Bank – depending on the status of related proceedings – is difficult to assess.

The Bank 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 Bank 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 Bank 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 CAPITAL STRUCTURE OF BANK JULIUS BAER & CO. LTD., ZURICH

	<b>31.12.2017</b> <i>CHF</i>	31.12.2016 <i>CHF</i>	Change <i>CHF</i>	Change %
<b>Share capital</b>				
Notional amount	<b>100</b>	100	-	-
Number of shares	<b>5,750,000</b>	5,750,000	-	-
Share capital entitled to dividend	<b>575,000,000</b>	575,000,000	-	-

There is no authorised capital or conditional capital.  
 All registered shares are fully paid.

## 20 SIGNIFICANT SHAREHOLDERS<sup>1</sup>

Bank Julius Baer is a wholly owned subsidiary of Julius Baer Group Ltd.

<b>Significant shareholders/participants of Julius Baer Group Ltd.<sup>3</sup></b>	Disclosure of purchase positions <sup>2</sup>	Disclosure of sale positions <sup>2</sup>
MFS Investment Management <sup>4</sup>	9.98%	
BlackRock, Inc. <sup>5</sup>	5.08%	0.07%
Harris Associates L.P. <sup>6</sup>	4.95%	
Wellington Management Company LLP <sup>7</sup>	4.94%	
Invesco Ltd. <sup>8</sup>	3.34%	

<sup>1</sup> The percentage holding of voting rights as well as the other terms as used herein have to be defined and read in the context of the relevant and applicable stock exchange rules. Please note that the above figures are based on reports made before respectively after the following events: a) capital increase by way of rights offering completed on 17 October 2012 with the issuance of 20,316,285 newly registered shares of Julius Baer Group Ltd.; b) capital increase out of authorised share capital completed on 24 January 2013 with the issuance of 7,102,407 newly registered shares of Julius Baer Group Ltd.

<sup>2</sup> Equity securities, conversion and share purchase rights (Art. 15 para. 1 a SESTO-FINMA), granted (written) share sale rights (Art. 15 para. 1 b SESTO-FINMA) and financial instruments (Art. 15 para. 1 c and para. 2 SESTO-FINMA).

Share sale rights (specifically put options) and granted (written) conversion and share purchase rights as well as financial instruments that provide for or permit cash settlement as well as other differential transactions (such as contracts for difference and financial futures).

The implementing provisions on disclosure law have been integrated into the new FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA), which entered into force on 1 January 2016. Purchase positions must be disclosed pursuant to art. 14 para. 1 a FMIO-FINMA and sales positions pursuant to art. 14 para. 1 b FMIO-FINMA.

<sup>3</sup> Please note that a change in the holding of voting rights within reportable thresholds does not trigger a notification duty. Further details on individual shareholdings can be found on [www.juliusbaer.com/shareholders](http://www.juliusbaer.com/shareholders) or on [www.six-exchange-regulation.com](http://www.six-exchange-regulation.com) in the section Publications > Significant Shareholders, Issuer Julius Bär Gruppe AG

<sup>4</sup> MFS Investment Management, Boston/USA, and its subsidiaries (reported on 30 December 2013)

<sup>5</sup> BlackRock, Inc., New York/USA, and its subsidiaries (reported on 4 May 2017)

<sup>6</sup> Harris Associates L.P., Chicago/USA (reported on 30 November 2016)

<sup>7</sup> Wellington Management Company LLP, Boston/USA (reported on 10 July 2017)

<sup>8</sup> Invesco Ltd., Hamilton/Bermuda (reported on 7 March 2017)

## 21 SHARE-BASED PAYMENTS

The programmes described below reflect the plan landscape as at 31 December 2017. All plans are reviewed annually to reflect any regulatory changes and/or market conditions. The Bank's overall compensation landscape is described in the chapter Remuneration Report of Julius Baer Group Ltd.

### **Deferred variable compensation plans**

#### *Cash-based variable compensation –*

##### *Deferred Cash Plan*

The Deferred Cash Plan (DCP) promotes sound business activities by remaining subject to forfeiture while providing an inherently less volatile payout than shares. The DCP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. These deferred cash awards vest in equal one-third tranches over a three-year plan period subject to continued employment. Where share-based plans are not permissible under local legislation, employee annual awards are fully deferred through the DCP.

#### *Equity-based variable compensation –*

##### *Premium Share Plan*

The Premium Share Plan (PSP) is designed to link a portion of the employee's variable compensation to the long-term success of the Bank through its share price. A PSP grant is made once a year as part of the annual variable compensation awarded to the individual concerned and participation is determined on an annual basis. The employee is granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee then receives an additional share award representing a further one-third of the number of shares granted to him or her at the beginning of the plan period.

#### *Equity-based variable compensation –*

##### *Equity Performance Plan*

The Equity Performance Plan (EPP) is a key element of the Julius Baer compensation model. One of the Compensation Committee's objectives was to create

a robust long-term incentive mechanism for key employees. The EPP is an equity plan which seeks to create a retention element for key employees and to link a significant portion of the executive compensation to the future performance of the Group.

Eligibility for the EPP is based on various factors, which include nomination by the CEO, overall role within Julius Baer, and total variable compensation and, as a new factor, individual contribution in the reporting period (as part of the adjustment to the performance-alignment approach for this performance year's EPP awards). All members of the Executive Board, key employees, and employees defined as risk takers by virtue of their function within the organisation are considered for the EPP based on their specific role. The size of the grant awarded to each individual varies based on factors which include, but are not limited to, seniority, current as well as projected future contributions to the Group, defined total pay mix and level of responsibility.

The EPP is an annual rolling equity grant (made in February each year) that awards Performance Units to eligible participants subject to individual performance in the reporting period and future performance-based requirements. The EPP award reflects the value of the individual for the current and future success of the business and more closely links an individual's compensation to his or her contribution to the future performance of the Group.

The goal of the EPP is to incentivise participants in two ways:

- Firstly, by the nature of its construction, the ultimate value of the award to the participants fluctuates with the market value of Julius Baer shares.

- Secondly, the Performance Units are contingent on continued service and two key performance indicators (KPIs), cumulative Economic Profit (cEP) and relative Total Shareholder Return (rTSR). The service condition requires that the participant remains with Julius Baer for three years after the grant (through a cliff-vesting mechanism). The performance of the two KPIs determines the number of shares the participant ultimately receives.

The number of shares delivered under the EPP is between 0% and 150% of the number of Performance Units granted in any given year (with each individual KPI being capped at a maximum multiplying factor of 200%). The cap serves to limit EPP awards so as to avoid any unforeseen outcome of the final EPP multiplier resulting in unintentionally high or excessive levels of compensation. A high level of performance is required to attain a maximum share delivery (creating a maximum uplift of 50% of the Performance Units granted), with low-level performance leading to potential nil compensation.

The KPI targets are set based on the strategic three-year budget/plan that is approved by the Board of Directors on an annual basis. Extremely high (and, thus, unrealistic) performance targets are avoided, so as not to incentivise excessive risk taking by executives and other managerial staff.

*Integration Incentive Award (for former Bank of America Merrill Lynch relationship managers)*  
As part of Julius Baer's integration of Bank of America Merrill Lynch's IWM business, key relationship managers from IWM were offered participation in the Integration Incentive Award (a cash- and share-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to Julius Baer.

The Integration Incentive Award plan runs for a maximum of five years, with cash being paid out on a rolling six-month basis over the first three years and shares being delivered to participants on the fourth and fifth anniversaries of the grant date. At the end of the plan period, subject to continued employment, the employee receives an additional

share award representing one-third of the number of shares granted to him or her at the beginning of the plan period.

In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested cash and/or shares are forfeited.

*Incentive Share Plan (ISP, applied as part of the variable compensation for 2012)*

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1 million and above or the local currency equivalent) of the executives' variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Bank or caused reputational damage.

*Long-Term Incentive Plan (LTI)*

In certain specific situations the Bank may also offer incentives outside the annual compensation cycle. Compensatory payments to new hires for deferred awards they have forfeited by resigning from their previous employer or retention payments to key employees during extraordinary or critical circumstances may be made by granting individuals an equity-based LTI.

An LTI granted in these circumstances generally runs over a three-year plan period. The Bank currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, (2) cliff vesting of all granted shares in one single tranche at the end of the three-year period.

The shares are transferred to participants at the time of vesting, subject to continued employment and any other conditions set out in the plan rules. In the event of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited.

#### *Staff Participation Plan (SPP)*

The SPP is offered to most of the Bank's global employee population. Some individuals or employees in specific locations are excluded from participating because, for example, the employees concerned are participants in another Bank equity-based plan or because the SPP cannot be offered in a particular jurisdiction for legal or regulatory reasons. Under this plan, eligible participants may voluntarily purchase Julius Baer Group Ltd. shares at the prevailing market price and for every three shares so purchased they will receive one additional share free of charge. These free shares vest after three years, subject to continued employment. Purchases under the SPP only occur once a year.

The objective of this plan is to strengthen the employee's identification with the Bank, to encourage entrepreneurial spirit, to generate greater interest in the business through ownership, and to provide employees with financial recognition for their long-term dedication to the Bank.

#### **Financing of share plans**

Julius Baer Group hedges its liabilities from share-based payments by purchasing the shares from the market on grant date through the Loteco Foundation. Until vesting, the granted shares are administered by the foundation. The Bank finances these shares purchased by the Loteco Foundation. At the end of the reporting period, the Bank recognised the amount of CHF 41.5 million (2016: CHF 45.1 million) as 'prefinanced share-based payments' included in other assets. This asset will be recovered over the vesting period by way of a capital distribution representing the recharge of share-based payments made by the Loteco Foundation.

In the reporting period this capital distribution amounted to CHF 52.0 million (2016: CHF 48.3 million).

To the extent that the prefinanced share-based payments will not result in vested share-based payments the asset will be recovered in cash from the Loteco Foundation.

The expense related to prefinanced share-based payments amount to CHF 52.0 million (2016: CHF 48.3 million).

Movements in shares/performance units granted under various participation plans are as follows:

	<b>31.12.2017</b>		31.12.2016	
	Number of units Economic Profit	Number of units Total Shareholder Return	Number of units Economic Profit	Number of units Total Shareholder Return
<b>Equity Performance Plan</b>				
Unvested units outstanding, at the beginning of the year	<b>643,730</b>	<b>643,729</b>	488,173	488,173
Granted during the year	<b>242,456</b>	<b>242,457</b>	287,249	287,248
Exercised during the year	<b>-184,449</b>	<b>-184,450</b>	-46,160	-46,160
Forfeited during the year	<b>-91,500</b>	<b>-91,500</b>	-85,532	-85,532
Unvested units outstanding, at the end of the year	<b>610,237</b>	<b>610,236</b>	643,730	643,729

	<b>31.12.2017</b>	31.12.2016
<b>Premium Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	<b>956,803</b>	904,945
Granted during the year	<b>406,954</b>	492,563
Vested during the year	<b>-405,623</b>	-361,884
Transferred (net) during the year	<b>-1,275</b>	4,022
Forfeited during the year	<b>-37,343</b>	-82,843
Unvested shares outstanding, at the end of the year	<b>919,516</b>	956,803
Weighted average fair value per share granted (CHF)	<b>47.07</b>	39.28
Fair value of outstanding shares at the end of the year (CHF 1,000)	<b>54,803</b>	43,726

	<b>31.12.2017</b>	31.12.2016
<b>Incentive Share Plan</b>		
Unvested shares outstanding, at the beginning of the year	-	404,462
Vested during the year	-	-409,058
Transferred (net) during the year	-	4,596
Forfeited during the year	-	-
Unvested shares outstanding, at the end of the year	-	-
Fair value of outstanding shares at the end of the year (CHF 1,000)	-	-



	31.12.2017	31.12.2016
<b>Integration Incentive Award</b>		
Unvested shares outstanding, at the beginning of the year	287,526	300,335
Vested during the year	-107,826	-
Forfeited during the year	-916	-12,809
Unvested shares outstanding, at the end of the year	178,784	287,526
Fair value of outstanding shares at the end of the year (CHF 1,000)	10,656	13,005

	31.12.2017	31.12.2016
<b>Long-Term Incentive Plan</b>		
Unvested shares outstanding, at the beginning of the year	379,291	267,001
Granted during the year	164,949	285,125
Vested during the year	-150,540	-129,188
Transferred (net) during the year	4,309	284
Forfeited during the year	-27,233	-43,931
Unvested shares outstanding, at the end of the year	370,776	379,291
Weighted average fair value per share awarded (CHF)	52.52	40.69
Fair value of outstanding shares at the end of the year (CHF 1,000)	22,098	17,155

	31.12.2017	31.12.2016
<b>Staff Participation Plan</b>		
Unvested shares outstanding, at the beginning of the year	106,494	103,754
Granted during the year	37,825	43,889
Vested during the year	-34,964	-37,516
Transferred (net) during the year	1,235	-208
Forfeited during the year	-5,687	-3,425
Unvested shares outstanding, at the end of the year	104,903	106,494
Weighted average fair value per share granted (CHF)	48.91	42.74
Fair value of outstanding shares at the end of the year (CHF 1,000)	6,252	4,817

Number and value of equity securities or options on equity securities across all plans held by all executives and directors and by employees:

	Number of equity securities	<b>31.12.2017</b> Value of equity securities CHF m	Number of equity securities	31.12.2016 Value of equity securities CHF m
<b>Equity plans</b>				
Total granted during the year	<b>609,728</b>	<b>29.7</b>	821,577	32.8
<i>of which members of executive bodies</i>	<b>28,934</b>	<b>1.7</b>	42,177	1.8
<i>of which employees</i>	<b>580,794</b>	<b>28.0</b>	779,400	31.0
	Number of units	<b>31.12.2017</b> Value of units CHF m	Number of units	31.12.2016 Value of units CHF m
<b>Plans based on units</b>				
Total granted during the year	<b>484,913</b>	<b>19.7</b>	574,497	21.8
<i>of which members of executive bodies</i>	<b>239,897</b>	<b>9.7</b>	292,745	11.6
<i>of which employees</i>	<b>245,016</b>	<b>10.0</b>	281,752	10.2

Compensation expense recognised for the various share plans are:

	<b>31.12.2017</b> CHF m	31.12.2016 CHF m
<b>Compensation expense</b>		
Equity Performance Plan	<b>23.8</b>	17.2
Premium Share Plan	<b>17.4</b>	17.3
Incentive Share Plan	-	0.4
Integration Incentive Award	<b>1.9</b>	2.8
Long-Term Incentive Plan	<b>7.5</b>	9.0
Staff Participation Plan	<b>1.4</b>	1.6
<b>Total</b>	<b>52.0</b>	48.3

## 22 RELATED PARTY TRANSACTIONS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
<b>Claims on</b>	<b>1,681,074</b>	3,562,883	-1,881,809	-52.8
affiliated companies	<b>519,032</b>	2,881,325	-2,362,293	-82.0
significant shareholders	<b>1,131,968</b>	636,511	495,457	77.8
members of the Bank's corporate bodies	<b>30,074</b>	45,047	-14,973	-33.2
<i>of which Board of Directors</i>	<b>4,526</b>	5,151	-625	-12.1
<i>of which Group and Bank Executive Boards</i>	<b>25,548</b>	39,896	-14,348	-36.0
<b>Liabilities to</b>	<b>4,178,902</b>	5,546,635	-1,367,733	-24.7
affiliated companies	<b>2,108,054</b>	4,244,775	-2,136,721	-50.3
significant shareholders	<b>2,051,271</b>	1,273,319	777,952	61.1
members of the Bank's corporate bodies	<b>14,967</b>	26,170	-11,203	-42.8
<i>of which Board of Directors</i>	<b>5,014</b>	13,146	-8,132	-61.9
<i>of which Group and Bank Executive Boards</i>	<b>9,953</b>	13,024	-3,071	-23.6
own pension funds	<b>4,610</b>	2,371	2,239	94.4
<b>Credit guarantees to</b>	<b>82,526</b>	178,973	-96,447	-53.9
affiliated companies	<b>81,334</b>	178,540	-97,206	-54.4
members of the Bank's corporate bodies	<b>1,192</b>	433	759	175.3
<i>of which Board of Directors</i>	<b>192</b>	344	-152	-44.2
<i>of which Group and Bank Executive Boards</i>	<b>1,000</b>	89	911	-
<b>Services provided to</b>	<b>402,538</b>	332,330	70,208	21.1
affiliated companies	<b>283,272</b>	229,033	54,239	23.7
significant shareholders	<b>118,386</b>	102,428	15,958	15.6
members of the Bank's corporate bodies	<b>880</b>	869	11	1.3
<i>of which Board of Directors</i>	<b>407</b>	293	114	38.9
<i>of which Group and Bank Executive Boards</i>	<b>473</b>	576	-103	-17.9
<b>Services provided by</b>	<b>75,990</b>	72,942	3,048	4.2
affiliated companies	<b>68,047</b>	63,318	4,729	7.5
significant shareholders	<b>7,943</b>	9,624	-1,681	-17.5

The loans granted to key management personnel consist of Lombard loans on a secured basis (through pledging of the securities portfolios) and mortgage loans on a fixed and variable basis. Transactions with Group entities and own pension funds are at arm's length.

The interest rates of the Lombard loans and mortgage loans are in line with the terms and conditions that are available to other employees, which are in line with the terms and conditions granted to third parties adjusted for reduced credit risk.

## 23 ASSETS – COUNTRY RATINGS

		CHF 1,000	31.12.2017 %	CHF 1,000	31.12.2016 %
<b>Total assets by the Bank's country risks rating classes</b>	<b>Moody's</b>				
1-2	Aaa – Aa3	<b>71,748,383</b>	<b>80.2</b>	74,633,030	82.2
3	A1 – A3	<b>5,948,604</b>	<b>6.7</b>	5,312,284	5.8
4	Baa1 – Baa3	<b>2,512,031</b>	<b>2.8</b>	2,043,074	2.2
5	Ba1 – Ba3	<b>1,162,726</b>	<b>1.3</b>	838,772	0.9
6-7	B1 – Caa3	<b>480,245</b>	<b>0.5</b>	734,311	0.8
Unrated		<b>7,558,343</b>	<b>8.5</b>	7,374,449	8.1
<b>Total</b>		<b>89,410,332</b>	<b>100.0</b>	90,935,920	100.0

## 24 COMPANY STRUCTURE AS AT 31 DECEMBER 2017

	Domicile	Currency	Share capital m	Equity interest %
<b>Companies</b>				
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich</i>				
<i>Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv</i>				
<i>including</i>				
Bank Julius Baer Nominees (Singapore) Pte. Ltd.	Singapore	SGD	0.000	100
Arpese SA	Lugano	CHF	0.400	100

## 25 CONTINGENT LIABILITIES

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Credit guarantees in the form of obligations under avals, sureties and guarantees, including guarantee obligations in the form of irrevocable letters of credit	<b>1,172,327</b>	1,183,495	-11,168	-0.9

## 26 IRREVOCABLE COMMITMENTS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Unutilised irrevocable commitments to extend credit	<b>632,410</b>	747,766	-115,356	-15.4
Irrevocable commitments to the deposit guarantee institution	<b>56,982</b>	61,420	-4,438	-7.2
<b>Total</b>	<b>689,392</b>	809,186	-119,794	-14.8

## 27 OBLIGATION TO MAKE ADDITIONAL CONTRIBUTIONS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Obligation to pay up shares and make further contributions	<b>50</b>	50	-	-

## 28 UNUSED TAX LOSSES CARRIED FORWARD

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Unused tax losses carried forward related to foreign branches	<b>25,401</b>	27,461	-2,060	-7.5

## 29 FIDUCIARY TRANSACTIONS

	<b>31.12.2017</b> <i>CHF 1,000</i>	31.12.2016 <i>CHF 1,000</i>	Change <i>CHF 1,000</i>	Change %
Fiduciary deposits at third-party banks	<b>8,424,122</b>	8,304,487	119,635	1.4

### 30 ASSETS UNDER MANAGEMENT

	<b>31.12.2017</b> <i>CHF m</i>	31.12.2016 <i>CHF m</i>	Change <i>CHF m</i>	Change %
Assets with discretionary mandate	<b>45,139</b>	39,390	5,749	14.6
Other assets under management	<b>274,132</b>	239,354	34,778	14.5
<b>Total assets under management (including double counting)</b>	<b>319,271</b>	278,744	40,527	14.5
<i>of which double counting</i>	<b>7,658</b>	5,757	1,901.0	33.0
Change through net new money	<b>16,903</b>	7,736	9,167	
Change through market and currency impacts	<b>27,670</b>	11,203	16,467	
Change through acquisition	<b>1,212<sup>1</sup></b>	-	1,212	
Change through divestment	<b>-75<sup>2</sup></b>	-8	-67	
Change through other effects	<b>-5,183<sup>3</sup></b>	-	5,183	
Client assets	<b>387,983</b>	334,203	53,780	16.1

<sup>1</sup> In July 2017, the Bank integrated WMPartners Wealth Management Ltd., Zurich.

<sup>2</sup> Assets under management were affected by the Bank's decision to discontinue its offering to clients from a number of selected countries.

<sup>3</sup> Includes assets which have been reclassified following the completed roll-out of the new client advisory models in Switzerland.

Assets under management include all bankable assets managed by or deposited with the Bank for investment purposes. Assets included are portfolios of wealth management clients for which the Bank provides discretionary or advisory asset management services. Assets deposited with the Bank held for transactional or safekeeping/custody purposes, and where the Bank 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 the assets for which the investment decisions are made by the Bank, and cover assets deposited with the Bank as well as assets deposited at third-party institutions. Other assets under management are defined as the 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 Bank.

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 Bank subsidiary or business are stated separately. 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 are disclosed according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

Client assets are defined as all bankable assets managed by or deposited with the Bank 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.

### 31 EVENTS AFTER THE BALANCE SHEET DATE

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

# REPORT OF THE STATUTORY AUDITOR TO THE ORDINARY ANNUAL GENERAL MEETING OF BANK JULIUS BAER & CO. LTD., ZURICH



**KPMG AG**  
**Financial Services**  
Badenerstrasse 172  
CH-8004 Zurich

P.O. Box  
CH-8036 Zurich

Telephone +41 58 249 31 31  
Internet [www.kpmg.ch](http://www.kpmg.ch)

Report of the Statutory Auditor to the General Meeting of Shareholders of

**Bank Julius Baer. & Co. Ltd., Zurich**

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## **Report of the Statutory Auditor on the Financial Statements**

As statutory auditor, we have audited the accompanying financial statements of Bank Julius Baer & Co. Ltd., which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 4 to 65) for the year ended 31 December 2017.

### *Board of Directors' Responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.





**Bank Julius Baer & Co. Ltd., Zurich**  
*Report of the Statutory Auditor  
on the Financial Statements  
to the General Meeting of Shareholders*

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

A handwritten signature in black ink, appearing to read 'Philipp Rickert', written in a cursive style.

Philipp Rickert  
*Licensed Audit Expert  
Auditor in Charge*

A handwritten signature in black ink, appearing to read 'Cataldo Castagna', written in a cursive style.

Cataldo Castagna  
*Licensed Audit Expert*

Zurich, 23 February 2018