# Final Terms and Conditions

## Julius Baer Group Ltd.
## CHF250 million Perpetual non-cumulative Additional Tier 1 Securities

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| **Issuer:** | **Julius Baer Group Ltd.** |
| Issuer Ratings (Senior): | A2 on review for downgrade |
| Instrument Rating: | Not rated |
| Amount: | CHF 250,000,000 |
| Format: | Perpetual non-cumulative Additional Tier 1 Securities |
| **Coupon:** | **5.375%**, annual 30/360, following, unadjusted |
| Coupon Type: | Fixed rate until First Call Date, reset every 5 years thereafter (no step-up) to prevailing midswap + initial credit spread<br>Non-cumulative coupons, payable at the discretion of the issuer, subject to sufficient distributable profits<br>Restrictions on dividend payments and share repurchases if no coupon is paid ("dividend stopper") |
| Benchmark Mid Swap Rate : | 0.402% |
| **Re-offer Spread vs Mid Swap (bp):** | **+498 bps** |
| Re-offer Yield: | 5.382% |
| Re-offer Price: | 100.000% |
| Net Fees: | 0.800% |
| Paying Agency Fees: | 0.01% of notional amount at each coupon payment + redemption |
| Structuring Fee (CS only): | CHF 127,000 |
| SIX fee: | 0.010% |
| Out-of-Pocket Expenses: | CHF 80,000 |
| **All-in Cost CHF fixed p.a.:** | **5.588%** |

**<u>Cash flows:</u>**

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| Net proceeds:** | CHF 247,768,000.00 |
| *Principal Amount * (Re-Offer Price – Net Fees) – Out-of-Pocket Expenses – Structuring fee – SIX fee* | |
| First Coupons Payments : | CHF 6,781,076.39 |
| Coupons Payments (to the call date): | CHF13,462,500.00 |
| *Principal Amount * (Coupon + Paying Agency Fees)* | |
| Redemption (incl. last coupon, to the call date): | CHF 263,487,500.00 |
| *Principal Amount * (Par + Paying Agency Fees)) + (Principal Amount * (Coupon + Paying Agency Fees)* | |

**<u>Retail structure:</u>**

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| Issue Price: | 101.000% |
| Underwriting Commission: | 1.800% |

**<u>Dates:</u>**

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| Trade Date: | 11 September 2012 |
| Payment Date: | 18 September 2012 |
| First Coupon Payment: | 19 March 2013 |
| First Call Date: | 19 March 2018 |
| Maturity Date: | Perpetual, Non-Call 19 March 2018 |

**Call Features:**

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| Issuer Call: | At year 5.5 and on every interest payment date thereafter at prevailing notional amount |
| Tax Call: | At the prevailing notional amount |
| Regulatory Call: | At the prevailing notional amount |

**Write down Structure:**

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| Write-down: | Upon breach of a Write-down Trigger Event, the principal is written down to the extent necessary to remedy the trigger breach<br>Full principal write-off upon occurrence of a Viability Event |
| Write-down Trigger Event: | 5.125% Core Tier 1 (Basel 2.5); 5.125% Common Equity Tier 1 (Basel 3) |
| Viability Event: | If JBG receives extraordinary public support to prevent insolvency, or a write-down is required to prevent insolvency as determined by FINMA |

**Documentation:**

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| Documentation Basis: | Standalone documentation under Swiss law |
| Proviso: | Force Majeure |
| Ranking: | Deeply subordinated, ranking behind Tier 2 capital, pari passu with Tier 1 and senior only to equity capital |
| Form: | The Additional Tier 1 Securities will beissued in uncertificated form as uncertificated securities (*Wertrechte*) in accordance with article 973c of the Swiss Code of Obligations. Investors do not have the right to request the printing and physical delivery of individually certificated Additional Tier1 Securities |
| Clearing/Settlement: | SIX SIS Ltd, Euroclear and Clearstream, Luxembourg |
| Denominations: | CHF 5,000 and multiples thereof |
| Selling Restrictions: | In particular U.S.A. and U.S. Persons, U.K., European Economic Area |
| Listing: | SIX Swiss Exchange |
| Listing Agent: | Credit Suisse AG |
| Business Days: | Zurich |
| Syndication: | Yes |
| Lead Manager: | Credit Suisse AG (JLJB), Zürcher Kantonalbank (JLJB), Julius Baer (JLNB) |
| Co-lead Manager (for CHF5m): | Gruppe Deutschschweizer Privatbanken |
| Principal Paying Agent: | Credit Suisse AG |
| ISIN: | CH0194437668 |

As of September 11, 2012

Subject to agreement on satisfactory documentation

Indemnity: The Issuer and, where applicable, the Guarantor, jointly and severally, shall indemnify and hold harmless the Lead Manager and, where applicable, all Co-Lead Managers or any of its or their respective representatives (each an indemnified person) from and against any losses, costs, claims and liabilities which an indemnified person might incur in connection with or arising out of the issue or activities under the issue.

This new issue (except the indemnity provision which shall enter into force upon the Issuer's express or tacit acceptance of this term sheet) remains subject to the completion and signing of all relevant agreements (e.g. prospectus, terms and conditions of the bonds, bond purchase agreement) and the granting of the listing of the bonds on the SIX Swiss Exchange AG.

## IMPORTANT NOTICE

**NOT FOR DISTRIBUTION IN OR INTO THE UNITED STATES OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NOT US PERSONS WITHIN THE MEANING OF REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND ADDRESSEES OUTSIDE OF THE UNITED STATES**

**IMPORTANT: You must read the following before continuing.** The following disclaimer applies to the attached Offering Circular received via email and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S).

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT, IN WHOLE OR IN PART, IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED HEREIN.

**Confirmation of your Representation:** In order to be eligible to review this Offering Circular or make an investment decision with respect to the securities described herein, investors must be a non-U.S. Person (as defined in Regulation S) in an offshore transaction outside the United States in reliance on Regulation S. You have been sent the attached Offering Circular on the basis that you have confirmed to Credit Suisse AG, Zürcher Kantonalbank or one of the other Syndicate Banks (as defined in the attached Offering Circular) being the sender of the attached, (i) that you and any customers that you represent are not U.S. Persons (as defined in Regulation S), (ii) that the electronic mail (or-email) address to which it has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia (where "possessions" include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent to delivery by electronic transmission.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the attached Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Also, there are restrictions on the distribution of the attached Offering Circular and/or the offer or sale of Bonds in the member states of the European Economic Area. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of Julius Baer Group Ltd. as issuer of the Bonds in such jurisdiction. The Offering Circular may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply, (such persons being referred to as ''relevant persons''). The Offering Circular must not be acted on or relied on by persons in the United Kingdom who are not relevant persons. Any investment or investment activity in the United Kingdom, to which this Offering Circular relates, is available only to persons who are relevant persons and will be engaged in only with relevant persons.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Julius Baer Group Ltd., Credit Suisse AG, Zürcher Kantonalbank and the other Syndicate Banks (as defined in the attached Offering Circular) or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Credit Suisse AG at the address set forth in the attached Offering Circular, if lawful.

**Preliminary Offering Circular dated 6 September 2012**

Julius Bär

# Julius Baer Group Ltd.

**Zurich, Switzerland**

## CHF ■

## Perpetual Tier 1 Subordinated Bonds
## (the “Tier 1 Bonds”)

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| Issuer: | Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich, Switzerland (the “Company” or the “Issuer” and, together with its subsidiaries, the “Julius Baer Group”, “Julius Baer” or the “Group”) |
| Notice to Investors: | You should consider carefully all the information contained in this Offering Circular and, in particular, the Terms of the Bonds included herein and the specific risk factors set out in the section headed “Risk Factors”. Defined terms shall have the meanings ascribed to them in the definition section of the “Terms of the Bonds” or elsewhere in this Offering Circular. |
| Issue Date: | ■ September 2012 |
| Maturity (if any): | The Tier 1 Bonds are perpetual securities in respect of which there is no fixed redemption date and shall only be redeemed or purchased in the manner and subject to the conditions specified in Condition 3 of the Terms of the Bonds. The Tier 1 Bonds will not be redeemable at any time at the option of the Holders. |
| Discretionary Interest: | Subject to the conditions for “Mandatory Cancellation of Interest“, interest shall be payable on the applicable Interest Payment Date or Redemption Date (if any) at the sole discretion of the Issuer. |
| Interest: | From (but excluding) the Issue Date to (and including) the First Call Date, the Tier 1 Bonds will bear interest at a fixed rate equal to ■ per cent per annum payable in arrear for the first time on ■ (first short coupon), and thereafter annually in arrear on ■ of each year (each an “Interest Payment Date“) on the Prevailing Notional Amount, for the last time on the First Call Date. The interest rate will be reset on the First Call Date and every fifth anniversary thereafter on the basis of the aggregate of the prevailing Benchmark Rate and the Margin, payable annually in arrear on each Interest Payment Date on the Prevailing Notional Amount. Interest on the Tier 1 Bonds is computed on the basis of a 360-day year of twelve 30-day months. |
| Benchmark Rate: | 5-year CHF mid market swap rate calculated on the basis of the rates displayed on ISDAFIX page “CHFSFIX” at 12.00 p.m. (CET) on the Coupon Determination Date. See Condition 2 of the Terms of the Bonds. |

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| Margin: | ■ |
| First Call Date: | ■ March 2018 |

Mandatory Interest Cancellation:

The Issuer shall be prohibited from making, in whole or in part, any payment of interest on the Tier 1 Bonds on the relevant Interest Payment Date or the Redemption Date (if any) to the extent that on such Interest Payment Date or Redemption Date, if any:

(i) the amount of such interest otherwise due, together with (x) any interest payments or distributions scheduled to be paid or made during the Relevant Period on Parity Securities, and (y) any Distributions scheduled to be paid or made with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or

(ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the Tier 1 Bonds or any Parity Securities.

Non-Cumulative Interest and No Event of Default:

Any interest not paid on any relevant Interest Payment Date or Redemption Date (if any) in accordance with Condition 2(b) of the Terms of the Bonds "Discretionary Interest" and/or Condition 2(c) "Mandatory Cancellation of Interest" shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer for the purpose of the Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

Restrictions following Non-Payment of Interest:

If, on any Interest Payment Date, payment of interest scheduled to be made on such date is not made in full on the Prevailing Notional Amount by reason of Condition 2(b) or 2(c) of the Terms of Bonds:

(i) The board of directors of the Issuer (the "Board of Directors") shall not directly or indirectly recommend to the shareholders of the Issuer, that any Distribution (other than in the form of Ordinary Shares or other capital stock) be paid or made on any Ordinary Shares or other capital stock of the Issuer; and

(ii) The Issuer shall not directly or indirectly, redeem, purchase or otherwise acquire any Ordinary Shares or other capital stock of the Issuer other than in relation to (a) transactions in securities effected by or for the account of customers of the Issuer or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of such securities; (b) the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or any of its Subsidiaries; (c) a reclassification of the capital stock of the Issuer or of any of its Subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock; or (d) the purchase of fractional interests in shares of the capital stock of the Issuer or any of its majority-owned Subsidiaries pursuant to the provisions of any security being converted into or exchanged for such capital stock,

in each case until the earliest of (x) the interest due and payable on any subsequent Interest Payment Date in respect of the then Prevailing Notional Amount of all outstanding Tier 1 Bonds having been paid in full to the Holders; or (y) all the Tier 1 Bonds having been redeemed or purchased and cancelled in full in accordance with Condition 3 of the Terms of the Tier 1 Bonds; or (z) the Prevailing Notional Amount of the Tier 1 Bonds having been reduced to zero in accordance with Condition 8 or Condition 9 of the Terms of the Bonds.

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| Issue Price: | The Syndicate Banks have purchased the Tier 1 Bonds at the price of ■ per cent. (before commissions) |
| Placement Price: | According to demand. |
| Status: | The Tier 1 Bonds constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves. The rights and claims of the Holders are subordinated as described in Condition 7(b) of the Terms of the Bonds. |
| Redemption: | Subject to Condition 3 of the Terms of the Bonds, the Issuer may elect, in its sole discretion, to redeem the Tier 1 Bonds in whole but not in part, by giving not less than 30 days' notice to Holders, under the following circumstances:<br>(i) on the First Call Date or on any Interest Payment Date thereafter; or<br>(ii) following the occurrence of a Tax Event in accordance with Condition 3(d) of the Terms of the Bonds; or<br>(iii) following a Regulatory Event in accordance with Condition 3(e) of the Terms of the Bonds;<br>in each case, at their Prevailing Notional Amount, together with any accrued but unpaid interest to (and including) the Redemption Date (if any). |
| Conditions for Redemption: | Any redemption or purchase of the Tier 1 Bonds under the Terms of the Bonds, other than a redemption following a Regulatory Event, is subject to:<br>(i) the prior approval of the Regulator, if then required;<br>(ii) as at the Redemption Notice Date and the Redemption Date (or as applicable, the date of purchase), neither a Write-down Trigger Event having occurred and being continuing nor a Viability Event having occurred; and<br>(iii) the Issuer's Group, both at the time of, and immediately following the redemption or purchase of the Tier 1 Bonds, being in compliance with the Minimum Capital Requirements. |
| Write-down: | Write down upon the occurrence of a Write-down Trigger Event:<br>If a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount shall be reduced by the relevant Write-down Amount and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (*bedingte Aufhebung einer Forderung durch Übereinkunft*).<br>"Write-down Amount" means the amount required to be deducted from the Prevailing Notional Amount, as determined by the Issuer in consultation with the Regulator after a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, as will (together with any substantially concurrent conversion, write-off or write-down of Holders' claims in respect of any other capital instruments of the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into |

equity, written-off or written-down at that time (including capital instruments with a write-down, write-off or conversion threshold equal to or higher than the Write-down Threshold Ratio, provided that the conversion, write-off or write-down in respect of capital instruments with a write-down, write-off or conversion threshold higher than the Write-down Threshold Ratio shall for that purpose take priority over any write-down of the Tier 1 Bonds)), restore the Relevant Capital Ratio back to a level equal to or, if required by the Regulator, higher than the Write-down Threshold Ratio, provided that, for the avoidance of doubt, the maximum Write-down Amount shall be equal to the Prevailing Notional Amount.

A "Write-down Trigger Event" shall occur if, the Relevant Capital Ratio as per the relevant Cut-off Date is less than the Write-down Threshold Ratio.

"Write-down Threshold Ratio" means 5.125 per cent.

Write down upon the occurrence of a Viability Event:

If a Viability Event has occurred, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount shall be reduced to zero and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments or any Liquidation Entitlement) against the Issuer with respect to the Tier 1 Bonds (*bedingte Aufhebung einer Forderung durch Übereinkunft*) and the Tier 1 Bonds shall be cancelled.

A "Viability Event**"** means that either:

(i) the Regulator has notified the Issuer that it has determined that the write-down of the Tier 1 Bonds, together with the conversion, write-down or write off of Holders' claims in respect of any other instruments that, pursuant to their terms or by operation of laws are capable of being converted into equity, written-down or written-off at that time, is, because customary measures to improve the Issuer's capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business; or

(ii) customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of Extraordinary Support directly or indirectly from the Public Sector.

"Public Sector" means the federal or central government or central bank in the Issuer's country of incorporation.

"Extraordinary Support" means any support (other than support that (x) is made in the ordinary course of business, or (y) is the result of customary transactions and arrangements) that has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

Reopening of the

The Issuer reserves the right to reopen and increase the Aggregate Principal Amount within

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| Issue: | six months of the Issue Date and without prior consultation of or permission from the Holders. |
| Form of Tier 1 Bonds/Delivery: | The Tier 1 Bonds are issued as uncertificated securities (*Wertrechte*) in accordance with article 973c of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*) ("Swiss Code of Obligations") and, upon registration in the main register (*Hauptregister*), will constitute intermediated securities (*Bucheffekten*); investors do not have the right to request the delivery of individually certificated bonds. |
| Denomination: | CHF 5,000 |
| Law and Jurisdiction: | Swiss law, Place of jurisdiction is Zurich and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland, venue being Zurich 1. |
| Sales Restrictions: | In particular U.S.A. and U.S. Persons, U.K., European Economic Area |
| Trading and Listing: | Application will be made for the admission to trading and listing of the Tier 1 Bonds on the SIX Swiss Exchange. The Tier 1 Bonds are expected to be provisionally admitted to trading on the SIX Swiss Exchange from ■; the last trading day is expected to be the third business day prior to the Redemption Date, if any. |
| Instrument Rating: | The Tier 1 Bonds have not been and will not be rated |

***Joint Lead Managers***

**Credit Suisse** **Zürcher Kantonalbank**

***Co-Managers***

**Bank Julius Baer & Co. Ltd.** **Gruppe deutschschweizerischer Privatbankiers**

Swiss Security No.: ■ ISIN: ■ Common Code: ■

# SALES RESTRICTIONS

## United States of America and U.S. Persons

(A) Each Syndicate Bank understands that the Tier 1 Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act).

Each Syndicate Bank has also represented, warranted and agreed that it has not offered or sold, and will not offer or sell, any Tier 1 Bonds constituting part of its allotment within the United States or to or for the account or benefit of U.S. persons except in accordance with Rule 903 of Regulation S under the Securities Act ("Regulation S").

Each Syndicate Bank has also represented, warranted and agreed that it has offered and sold the Tier 1 Bonds, and will offer and sell the Tier 1 Bonds (i) as part of their distribution at any time, and (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date (the "Distribution Compliance Period"), only in accordance with Rule 903 of Regulation S. Each Syndicate Bank agrees that, at or prior to confirmation of sale of Tier 1 Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Tier 1 Bonds from it during the Distribution Compliance Period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time, or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, except in either case in accordance with Regulation S under the Securities Act ("Regulation S"). Terms used above have the meanings given to them by Regulation S."

Each Syndicate Bank has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any "directed selling efforts" with respect to the Tier 1 Bonds.

Terms used in this paragraph (A) have the meanings given to them by Regulation S.

(B) Each Syndicate Bank has represented, warranted and agreed that it has not entered and will not enter into any contractual arrangement with respect to the distribution or delivery of the Tier 1 Bonds, except with their affiliates or with the prior written consent of the Company.

## United Kingdom

Each Syndicate Bank has represented and agreed that: (i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Tier 1 Bonds in, from or otherwise involving the United Kingdom; and (ii) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Tier 1 Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company.

## European Economic Area

In relation to each Member State of the European Economic Area, which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Syndicate Bank has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), it has not made and will not make an offer of the Tier 1 Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Tier 1 Bonds in that Relevant Member State: (i) to any legal entity which is a qualified investor as defined in the Prospectus Directive; or (ii) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of Tier 1 Bonds referred to in (i) to (iii) above shall require the Company or the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Tier 1 Bonds to the public" in relation to any Tier 1 Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Tier 1 Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Tier 1 Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

## General

Neither the Company nor any of the Syndicate Banks have represented that the Tier 1 Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. The distribution or possession of this Offering Circular (in preliminary proof or final form) and the offering, sale, purchase or delivery of the Tier 1 Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company to inform themselves about and to observe any such restrictions, in all cases at their own expense.

This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken in any jurisdiction that would permit a public offering of the Tier 1 Bonds or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required.

## FINAL OFFERING CIRCULAR

The Tier 1 Bonds are expected to be issued based on the final offering circular on or about ■ September 2012 (the "Final Offering Circular") which will also serve as listing prospectus for the listing of the Tier 1 Bonds on the SIX Swiss Exchange.

The information set out in the Final Offering Circular will replace in full and take precedence over this preliminary offering circular (the "Offering Circular"). Prospective investors are advised to read this Offering Circular and the Final Offering Circular.

## DOCUMENTS AVAILABLE

Copies of this Offering Circular and any supplements thereto are and copies of the Final Offering Circular and supplements thereto will be available free of charge in Switzerland from Credit Suisse AG, Uetlibergstrasse 231, 8070 Zurich, Switzerland, or may be obtained by telephone (+41 44 333 49 73), by fax (+41 44 333 57 79) or by e-mail to newissues.fixedincome@credit-suisse.com.

## CERTAIN TERMS AND CONVENTIONS

References in this Offering Circular to the "Issuer", "Julius Baer" or the "Company" refer to Julius Baer Group Ltd. and references to the "Julius Baer Group", "we", "us", "our", the "Group" and similar terms refer to Julius Baer Group Ltd. and its subsidiaries when discussing events up until the time of Principal Completion (as defined herein) and the Julius Baer Group as enlarged by the acquisition (the "Acquisition") of the International Wealth Management business of Bank of America Merrill Lynch ("Bank of America Merrill Lynch") outside the United States and Japan ("IWM") (the "Enlarged Group") following Principal Completion.

## PRESENTATION OF FINANCIAL AND OTHER DATA

### Financial information included in this Offering Circular

Unless otherwise indicated, financial information in this Offering Circular has been prepared in accordance with International Financial Reporting Standards (formerly known as "International Accounting Standards" or "IAS") of the International Accounting Standards Board ("IFRS").

The financial information included in this Offering Circular includes:

(i) our audited consolidated financial statements as at and for the year ended 31 December 2011 prepared in accordance with IFRS, which contain the consolidated financial statements for the year ended 31 December 2011 and the related 2010 comparatives;

(ii) our audited consolidated financial statements as at and for the year ended 31 December 2010 prepared in accordance with IFRS, which contain the consolidated financial statements for the year ended 31 December 2010 and the related 2009 comparatives;

(iii) our audited statutory financial statements as at and for the year ended 31 December 2011 prepared in accordance with the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*), which contain the statutory financial statements for the year ended 31 December 2011 and the related 2010 comparatives;

(iv) our unaudited interim consolidated financial statements as at and for the six months ended 30 June 2012 and 2011, prepared in accordance with IAS 34; and

(v) our unaudited interim statutory financial statements as at and for the six months ended 30 June 2012 and 2011, prepared in accordance with the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*).

Any discrepancies in any table included in this Offering Circular between totals and the sums of the amounts listed are due to rounding.

## Adjusted metrics

In this Offering Circular, certain financial measures are presented that are not recognised under IFRS or IAS 34, including adjusted net profit and underlying net profit. Adjusted net profit is calculated as profit after tax, excluding amortisation of intangible assets and integration and restructuring costs, net of the associated tax impact of these items. Underlying net profit is calculated as adjusted net profit less the one-off German tax payment, net of the associated tax impact. We believe that adjusted net profit and underlying net profit are relevant measures for assessing our performance because these measures serve as useful metrics for understanding the underlying operations of our business. While these measures have not been audited, they have been derived from our consolidated financial statements for the years ended 31 December 2011, 2010 and 2009 (prepared in accordance with IFRS) and our unaudited interim consolidated financial statements for the six months ended 30 June 2012 and 2011 (prepared in accordance with IAS 34).

These measures and similarly titled measures may be used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. Investors should exercise caution in comparing these measures to other similarly titled measures reported by other companies. Investors should not consider adjusted net profit and underlying net profit as alternatives to profit after tax, and they should not consider them in isolation or as substitutes for an analysis of our results as reported under IFRS or IAS 34. See ''Operating and Financial Review and Prospects — Julius Baer Group — Reconciliation of Profit After Tax to Adjusted and Underlying Net Profit'' for a reconciliation of profit after tax to adjusted net profit and underlying net profit.

## Presentation of AuM for the Julius Baer Group

The Julius Baer Group's AuM include all bankable assets managed by or deposited with Julius Baer Group for investment purposes of individual or corporate clients. AuM includes, for example, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits and client savings and current accounts. Bankable assets are assets such as account balances, debt and equity securities, funds, money market papers or precious metals that are deposited in a custody account and which can be valued on a regular basis. In contrast, art collections and real estate are examples of non-bankable assets.

## Presentation of AuM for IWM

IWM AuM is defined as client deposits and client financial assets other than: (i) assets held largely for safekeeping and custody purposes; (ii) loans (including margin receivables); (iii) assets held for treasury purposes or proprietary assets and investments of IWM; and (iv) real property, artwork and similar assets held directly in physical form (but excluding precious metals).

The IWM AuM numbers as at 30 June 2012 are preliminary numbers and are therefore subject to change.

## AVAILABLE INFORMATION

Under the listing rules of the SIX Swiss Exchange (the "Listing Rules"), the Company is subject to reporting obligations, including the filing of annual and semi-annual reports with the SIX Swiss Exchange. In addition, the Company is subject to the ad hoc publicity requirements as defined in the Listing Rules pursuant to which the Company must inform the market of any price sensitive facts arising in its sphere of activity that are not known to the public. The Company may, however, postpone the disclosure of a price sensitive fact, if such fact is based on a plan or decision of the Company, the disclosure of which would have the potential to prejudice the valid interests of the Company and provided that the Company can ensure the confidentiality of such fact.

## FORWARD-LOOKING STATEMENTS

This Offering Circular contains various forward-looking statements, including statements of future financial and operational developments and results, including operational targets, if any, we may realise in connection with the Acquisition, as well as other projections and statements that are forward-looking or contain subjective assessments, regarding the intent, belief or current expectations of the Company or its management, that are subject to risks and uncertainties that could cause the actual results and financial position of the Company to differ materially from the information presented herein. When used in this Offering Circular, the words "assumes", "plans", "believes", "is of the opinion", "estimates", "projected", "intends", "anticipates", "expects", "should" and similar expressions are intended to identify such forward-looking statements and subjective assessments. Such statements are made on the basis of assumptions, estimates and expectations which, although reasonable at this time, may prove to be erroneous or unfounded in the future. The risks and uncertainties facing the Company that could affect the future accuracy of these forward-looking statements include, but are not limited to, the factors discussed under "Risk Factors", "Operating and Financial Review and Prospects — Julius Baer Group", "Business — Julius Baer Group", "Business — IWM", "Regulation" and elsewhere. If any of these risks or uncertainties materialise or if underlying assumptions prove to be incorrect, actual outcomes may vary materially from those indicated in the forward-looking statements. Investors in the Tier 1 Bonds are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this Offering Circular. Other than in accordance with the ad-hoc publicity rules of the SIX Swiss Exchange, the Company undertakes no obligation to release publicly any revisions or updates to any forward-looking statements herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events or reflect any change in the Company's expectations.

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## SUMMARY

*This summary highlights information contained elsewhere in this Offering Circular. It does not contain all of the information that you should consider before investing in the Tier 1 Bonds due to the fact that it is a summary. You should read the entire Offering Circular carefully, including the "Risk Factors" section, the financial statements and the notes to the financial statements.*

### Julius Baer

The Julius Baer Group is the leading Swiss pure private banking group, focusing primarily on the demands of sophisticated private clients, family offices and independent asset managers from around the world. We have the largest international presence of all Swiss private banks with over 40 locations in more than 20 countries, including a comprehensive pan-Swiss network. Switzerland and Asia are our two home markets, with our head office being located in Zurich.

The shares of Julius Baer Group Ltd. (the "Shares" or "Ordinary Shares") are listed in accordance with the Main Standard of the SIX Swiss Exchange and traded under the ticker symbol "BAER". They form part of the Swiss Market Index (SMI) of the 20 largest and most liquid Swiss stocks. As at 30 June 2012, Julius Baer had a BIS tier 1 ratio of 21.4 per cent. (under Basel 2.5), which was well in excess of the minimum requirements. In addition, as at 30 June 2012, Julius Baer had total client assets of CHF 269 billion, with AuM accounting for CHF 179 billion. The Julius Baer Group employs a staff of over 3,600 worldwide.

### The Acquisition of IWM

On 13 August 2012, we announced our agreement to acquire IWM. As at 30 June 2012, this business had USD 84 billion (CHF 81 billion) of AuM and approximately 2,100 employees, including approximately 525 financial advisers. The Acquisition is structured as a combination of legal entity acquisitions and business transfers. While principal completion is expected to occur during the fourth quarter of 2012 or the first quarter of 2013 following the receipt of regulatory and shareholder approvals and the satisfaction of certain other conditions (the "Principal Completion"), the transfer of the businesses we are acquiring is expected to continue during the two-year integration period from Principal Completion (the "Integration"). We and Bank of America Merrill Lynch will work closely together to develop a detailed plan for the transfer and separation of the acquired business for each jurisdiction. Although there can be no assurance as to the level of AuM that will be transferred to the Julius Baer Group in connection with the Acquisition, we anticipate that the Acquisition will result in additional AuM of between CHF 57 billion and CHF 72 billion by the end of the Integration, which is expected to end in the fourth quarter of 2014 or the first quarter of 2015. Assuming CHF 72 billion of AuM transferred and our existing AuM and total client assets as at 30 June 2012 in the amount of CHF 179 billion and CHF 269 billion, respectively, the Acquisition is expected to increase our existing AuM by approximately 40 per cent. to CHF 251 billion and our existing total client assets to CHF 341 billion at the end of the Integration.

Approximately two-thirds of IWM's AuM as at 30 June 2012 are from clients domiciled in growth markets, mainly Asia, Latin America and the Middle East, with Asia accounting for approximately half of AuM in growth markets. As a result, assuming CHF 72 billion of AuM transferred and that the breakdown by client domicile of this AuM transferred is in proportion to IWM's client domicile breakdown as at 30 June 2012, the proportion of our AuM derived from growth markets is expected to increase from slightly more than one-third to approximately half on a pro forma basis following the Integration.

The consideration payable to Merrill Lynch & Co., Inc. is 1.2 per cent. of AuM, payable as and when AuM are transferred. Assuming the transfer of CHF 72 billion of AuM, the consideration will be CHF 864 million.

In addition, we will pay CHF-for-CHF for any net asset value of the companies and businesses that are transferred in the Acquisition, as and when the companies and businesses to which the net asset value is attributable are transferred. The excess of the total purchase consideration over the fair value of the net assets acquired will, under purchase accounting rules, be recorded as goodwill and other intangible assets at the time of Principal Completion or the relevant Subsequent Completion (as defined in "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Transitional Services Agreement"), as the case may be (of which the proportion allocated to client relationships will be amortised). The total transaction, restructuring and integration costs in connection with the transfer of the IWM business to Julius Baer are expected to amount to approximately CHF 400 million (CHF 312 million after tax). Assuming the transfer of CHF 72 billion of AuM, the regulatory capital that will be required to support the incremental risk-weighted assets of IWM at a 12 per cent. BIS tier 1 ratio is approximately CHF 300 million.

The Julius Baer Group intends to put funding in place at a level that is sufficient to support the acquisition of up to CHF 72 billion of AuM. At that level, the Acquisition is expected to be funded by:

- the issuance of new Shares out of the Company's authorised share capital (as proposed to the shareholders for approval in the extraordinary shareholder's meeting to be held on 19 September 2012) to Merrill Lynch & Co., Inc. in the amount of CHF 243 million (USD 250 million) (the "Consideration Shares");
- cash raised through the issuance of new Shares by way of a rights offering (the "Rights Offering") in the amount of up to CHF 500 million;
- existing excess capital in the amount of up to CHF 530 million; and
- the issuance of hybrid instruments in the amount of at least CHF 200 million.

We have purchased USD in order to hedge a portion of the consideration, with the remaining portion of the consideration being hedged through our natural USD long position, which arises through our future income in USD in excess of our USD denominated expenses.

In connection with the Acquisition, we will enter into a strategic cooperation agreement with Merrill Lynch & Co., Inc., pursuant to which the Julius Baer Group and Bank of America Merrill Lynch will refer certain clients to each other and Bank of America Merrill Lynch will provide certain products and services to the Julius Baer Group, including global equity research, product offerings and structured and advisory products (the "Strategic Cooperation Agreement"). See "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Strategic Cooperation Agreement" for further details of these arrangements.

## Rationale for the Acquisition

### *Strategic Rationale*

The Acquisition represents a rare opportunity to acquire an international pure-play wealth management business of significant size. We believe that the Acquisition is an excellent strategic, cultural and geographic fit that will allow us to strengthen our position as the leading pure-play Swiss private banking group.

The compatibility and complementary nature of the businesses is notably evidenced, among other things, by the similar composition of assets, which implies that clients of the two businesses have similar needs.

In particular, we believe that the Acquisition will:

- add substantial scale to existing locations both in growth markets and in Europe and a presence in a number of key new locations;
- increase our exposure to growth markets, reduce our exposure to the Swiss franc and increase the proportion of on-shore assets;
- further strengthen our unique value proposition to our sophisticated client base;
- reinforce our attractiveness as an employer of choice in private banking; and
- strengthen our business through the Strategic Cooperation Agreement with Merrill Lynch & Co., Inc.

### *Financial Rationale*

The consideration payable to Merrill Lynch & Co., Inc. is 1.2 per cent. of AuM, payable as and when AuM are transferred. Assuming the transfer of CHF 72 billion of AuM, the consideration will be CHF 864 million. In addition, we will pay CHF-for-CHF for any net asset value of the companies and businesses that are transferred in the Acquisition, as and when the companies and businesses to which the net asset value is attributable are transferred. The excess of the total purchase consideration over the fair value of the net assets acquired will, under purchase accounting rules, be recorded as goodwill and other intangible assets at the time of Principal Completion or the relevant Subsequent Completion, as the case may be (of which the proportion allocated to client relationships will be amortised). The total transaction, restructuring and integration costs in connection with the transfer of the IWM business to Julius Baer are expected to amount to approximately CHF 400 million (CHF 312 million after tax). Assuming the transfer of CHF 72 billion of AuM, the regulatory capital that will be required to support the incremental risk-weighted assets of IWM at a 12 per cent. BIS tier 1 ratio is approximately CHF 300 million. Based on the price of the Shares prior to the announcement of the Acquisition on 13 August 2012 and assuming that the level of AuM transferred is within the range of CHF 57 billion to CHF 72 billion, we are targeting accretion to earnings per share of approximately 15 per cent. in 2015 based on adjusted net profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets). This earnings accretion target is relative to a scenario in which the Acquisition does not take place and in which the Julius Baer Group does not undertake any share buybacks until the end of 2015.

### Transaction, restructuring and integration costs

We expect that the total transaction, restructuring and integration costs necessary to transfer the business onto Julius Baer platforms will amount to approximately CHF 400 million (CHF 312 million net of tax). Major components of these costs include, among other things, information technology costs relating to the parallel running of two platforms during the Integration (which we expect to be of relatively limited duration) as well as platform enhancements, infrastructure and migration costs; retention costs required to incentivise and retain financial advisers and other key personnel; and costs relating to the hiring of temporary staff. We cannot assure you, however, that transaction, restructuring and integration costs will not exceed CHF 400 million (CHF 312 million after tax), in particular if there are write-downs of asset values following the completion of the Acquisition, or that these measures will be sufficient for us to achieve the operational targets outlined below. In addition, up to USD 125 million (CHF 121 million) of defined restructuring and integration costs will be borne by Bank of America Merrill Lynch. To the extent that these costs exceed this amount, we will be required to bear the excess amount.

### Operational targets

From 2015 onwards (*i.e.*, following completion of the Integration), we envisage targets for the Enlarged Group as follows, assuming the transfer of CHF 72 billion of AuM and assuming that the market performance impact of transferred AuM is similar to the impact on our stand-alone AuM:

- Net new money in the range of four to six per cent. on an annualised basis;
- Adjusted cost to income ratio in the range of 65 per cent. to 70 per cent. (excluding integration and restructuring costs, amortisation of intangible assets, valuation allowances, provisions, and losses); and
- Pre-tax margin (defined as adjusted pre-tax profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets) divided by average AuM for the period) in the range of 30 to 35 basis points.

We also expect our effective tax rate to decline following the Integration as a result of the change in the geographical mix of our business in connection with the Acquisition as well as transaction related tax benefits.

In addition, taking into consideration the convergence of the BIS and Swiss approach to calculating capital ratios in 2013, we have adjusted our BIS total capital ratio target from 16 per cent. to 15 per cent., which would represent a 3 per cent. buffer over the minimum regulatory requirement. Our target BIS tier 1 capital ratio remains unchanged at 12 per cent. Our capital ratios are expected to remain above target levels at all times throughout the Integration, taking into account all currently known future capital impacts. In addition, we have decided not to pursue our previously announced share buyback programme.

Our targets are based on assumptions that may or may not prove to be accurate and we cannot assure you that we will achieve any or all of the preceding operational targets on the timeline we have estimated, or at all. See “Risk Factors — Risks Related to the Acquisition — We face significant management, administrative and financial challenges and may not be able to achieve our key commercial objectives following the Acquisition”.

### Management structure

As a consequence of the Acquisition and the greater importance of growth markets resulting therefrom, our management structure will be realigned at the time of Principal Completion. In connection with the realignment, certain members of IWM’s management team are expected to join the Julius Baer Group, including Gregory Gatesman, Sonia Dula and Michael Benz, who will serve as Chief Operating Officer, Head Spanish Speaking Latin America and Chairman of the Asia region, respectively. Mr. Gatesman is currently responsible for the oversight of the EMEA, Asia Pacific and Latin America regions of IWM. He also has significant integration experience, having previously served as the executive in charge of the integration of the Merrill Lynch and Bank of America Corporation brokerage businesses. Ms. Dula is currently responsible for IWM’s Latin America region and was previously Head of Corporate and Investment Banking for Latin America at Bank of America Merrill Lynch. Mr. Benz joined IWM in 2011, having previously held various senior roles at UBS in investment banking and asset management, including his most recent position of Head of Asia Pacific Products & Services. See “Board of Directors and Management — Realignment of Management Structure”.

### Client assets of the Enlarged Group

The following table sets forth the unaudited combined client assets for the Enlarged Group as at 30 June 2012. The AuM presented below for IWM and for the Enlarged Group are based on the transfer of CHF 72 billion of AuM. The actual amount of AuM transferred will depend on which of IWM’s clients ultimately agree to join the Julius Baer Group, which will in turn mainly depend on whether such clients’ financial advisers join the Julius Baer Group. See “Risk Factors — Risks Related to the Acquisition — We may not be able to achieve our targets and the expected benefits of the Acquisition if the amount of AuM transferred is less than expected”. Furthermore, we cannot predict the timing of the transfer of AuM in connection with the Acquisition. While we expect a portion of IWM’s AuM to be transferred to us upon Principal Completion, AuM are expected to continue to be transferred during the Integration.

| | Julius Baer Group | IWM | Enlarged Group |
|---|---|---|---|
| | | (CHF in billions) | |
| AuM(1)(2) | 179 | 72 | 251 |
| Assets under custody | 90 | – | 90 |
| Total client assets | 269 | 72 | 341 |

Notes:

(1) Figures include double counting of private label funds managed by and certain structured notes issued by the Julius Baer Group.

(2) IWM AuM are calculated on the basis of the Julius Baer Group's definition of AuM and do not correspond to client balances presented in "Business — IWM".

## Risk Factors

In connection with the Acquisition, we may not be able to:

- achieve our targets and the expected benefits of the Acquisition if the amount of AuM transferred is less than expected;
- achieve our key commercial objectives following the Acquisition;
- achieve our targeted earnings accretion of 15 per cent.;
- avoid writing down the carrying value of our investment in IWM;
- ensure that the services that Bank of America Merrill Lynch or its affiliates provide pursuant to the Transitional Service Agreement will be timely or will adequately meet the needs of the Julius Baer Group;
- reach Principal Completion during the fourth quarter of 2012 or the first quarter of 2013, or at all;
- recover pre-payments that we have made to the extent that a particular IWM business or company is not transferred to us;
- adequately protect ourselves from contingent or unknown liabilities; or
- eliminate all currency risk in respect of the consideration payable in connection with the Acquisition, in the event that the hedging strategy is not fully effective.

In addition, the combined financial information of IWM is based on its AuM during the periods for which the financial information was prepared, which may not be transferred to us, and may not be indicative of the financial condition of the Enlarged Group.

In connection with the envisaged launch / completion of the Rights Offering, we might not be able to continue with the envisaged Rights Offering when the shareholders at the extraordinary shareholders' meeting vote against the creation of the authorised share capital.

In connection with our business and industry, we may not be able to:

- adequately respond to global economic and financial market conditions;

- adequately respond to foreign exchange rate fluctuations;
- generate, maintain or grow our commissions and fees due to, among other things, certain EU Commission proposals;
- adequately respond to changes to capital adequacy and liquidity requirements;
- adequately respond to increased regulation of the private banking industry;
- manage the risk that fees received by us for the distribution of financial products issued by third parties will be considered to be "retrocessions";
- comply fully with our regulatory obligations;
- reach a resolution of the investigation initiated by the U.S. authorities (the "DOJ") or avoid paying a significant fine in connection with the resolution;
- maintain our current levels of AuM if the Swiss government is unsuccessful in managing pressures on client confidentiality;
- maintain our current levels of AuM in light of changes in tax and regulatory regimes;
- address systemic risk in the financial services industry;
- protect our reputation;
- manage competitive pressures;
- address competition from alternative trading systems;
- attract or retain key management;
- rely on third parties to perform as required or expected;
- adequately protect our clients' data or intellectual property rights;
- avoid or achieve success in litigation;
- avoid losses in connection with our market making and proprietary trading activities;
- avoid losses from our investment of surplus liquidity from clients' deposits in securities;
- maintain effective risk management policies and procedures;
- protect our business from third-party credit risk;
- mitigate the impact of fluctuation in the value of financial instruments;
- mitigate the effects of client concentration;
- mitigate increased funding costs in the event of a decline in our credit ratings;
- manage operational risks; or
- avoid losses relating to employee fraud misconduct or improper practice.

In connection with the Tier 1 Bonds, potential investors should carefully consider the following:

- the Tier 1 Bonds are novel and complex financial instruments;

- the Tier 1 Bonds have no scheduled maturity or redemption date. The Issuer is under no obligation to redeem the Tier 1 Bonds at any time;
- the Tier 1 Bonds will be written down to zero upon the occurrence of a Viability Event and the Tier 1 Bonds will be automatically cancelled;
- the Tier 1 Bonds may be permanently written down in part or in full upon the occurrence of a Write-down Trigger Event. If written down in full, the Tier 1 Bonds will be automatically cancelled;
- the occurrence of a Write-down Trigger Event or Viability Event is inherently unpredictable and depends on a number of factors, any of which may be outside of the Issuer's control;
- payment of interest, if any, on any Interest Payment Date is at the sole discretion of the Issuer, and the Issuer may be obliged to cancel payments of interest;
- the interest rate on the Tier 1 Bonds will be reset on the First Call Date, which can be expected to affect the interest payment on an investment in the Tier 1 Bonds and the market value of the Tier 1 Bonds;
- the Tier 1 Bonds have not been and will not be rated;
- there is no restriction on the amount of liabilities which the Issuer may issue, guarantee or otherwise incur which rank senior to the Tier 1 Bonds or *pari passu* with the Tier 1 Bonds;
- subject to certain conditions, the Tier 1 Bonds may be redeemed at the option of the Issuer on the First Call Date or on any Interest Payment Date following the First Call Date or, in certain circumstances, before that date;
- the Tier 1 Bonds are deeply subordinated;
- the fixed interest rate in respect of the Tier 1 Bonds will be reset periodically;
- to the extent not considered option component by the Swiss Federal Tax Administration, payments of interest under the Tier 1 Bonds are subject to 35 per cent. Swiss federal withholding tax (the "Swiss Federal Withholding Tax") ;
- payments on the Tier 1 Bonds may be subject to FATCA;
- the Terms of the Bonds and the Offering Circular are based on Swiss law (including tax law) in effect as at the date of this Offering Circular and the description of the effects thereof. Such laws and the interpretation thereof have been and are subject to change;
- Holders have limited acceleration rights in respect of the Tier 1 Bonds;
- the Tier 1 Bonds have no established trading market. A trading market may not develop for the Tier 1 Bonds;
- the Tier 1 Bonds are not deposit liabilities of the Bank and will not be insured by any depositor protection scheme or any other government compensation or insurance scheme;
- the ability to eliminate or to restrict the risks of the Tier 1 Bonds arising from their purchase by concluding any hedging transactions depends mainly on the market conditions and the terms and conditions of the specific security. As a consequence, such transactions – if at all possible – may be concluded at unfavourable market prices to the effect that corresponding losses may arise;
- the real yield from an investment is reduced by inflation;

- within the context of the offering and sale of the Tier 1 Bonds, the Issuer, any of its affiliates or the Syndicate Banks may directly or indirectly pay fees or receive payments of fees in varying amounts to third parties;
- the value of a Tier 1 Bond is determined not only by changes in market prices but also by several other factors;
- the Issuer and all of its affiliates respectively disclaim any responsibility to advise prospective investors of the risks and investment considerations associated with the purchase of the Tier 1 Bonds;
- the Issuer has no and assumes no responsibility for (i) the lawfulness of the acquisition of the Tier 1 Bonds by investors or for (ii) the compliance by investors with any law, regulation or regulatory policy applicable to them;
- the Tier 1 Bonds do not carry voting rights at shareholders' meetings;
- in certain instances, the Issuer could vary the Terms of the Bonds, and Holders may be bound by amendments to the Tier 1 Bonds to which they did not consent;
- each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Tier 1 Bonds; and
- the Tier 1 Bonds are held in the clearing system operated by SIS or in any other relevant clearing system, and Holders will have to rely on their procedures for transfer, payment and communication with the Issuer.

## Recent Developments

Trading at Julius Baer Group to the date of this Offering Circular has been largely in line with the expectations of our management since the publication of its results for the six months ended 30 June 2012.

## Summary Financial and Operating Data – Julius Baer

The summary consolidated financial information as at and for the years ended 31 December 2011 and 2010 presented below have been extracted without material adjustment from our audited consolidated financial statements as at and for the year ended 31 December 2011 prepared in accordance with IFRS, included elsewhere in this Offering Circular, which contain the consolidated financial statements for 31 December 2011 and the related 2010 comparatives.

The summary consolidated financial information as at and for the year ended 31 December 2009 presented below have been extracted without material adjustment from our audited consolidated financial statements as at and for the year ended 31 December 2010 prepared in accordance with IFRS, included elsewhere in this Offering Circular, which contain the consolidated financial statements for 31 December 2010 and the related 2009 comparatives.

The summary unaudited interim consolidated financial information as at and for the six months ended 30 June 2012 and 2011 presented below have been extracted without material adjustment from our unaudited interim consolidated financial statements as at and for the six months ended 30 June 2012 and 2011 prepared in accordance with IAS 34, included elsewhere in this Offering Circular.

The following information is only a summary and should be read in conjunction with the information set forth in "Selected Financial and Operating Data — Julius Baer Group" and our audited consolidated financial statements and unaudited interim consolidated financial statements included elsewhere in this Offering Circular, as well as the other financial information included in this Offering Circular.

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| | *(CHF in millions)* | | | | |
| **Income statement data:** | | | | | |
| Interest income | 368.2 | 350.8 | 636.6 | 519.5 | 576.5 |
| Interest expense | 45.5 | 34.5 | 104.0 | 64.1 | 110.0 |
| Net interest income | 322.7 | 316.3 | 532.6 | 455.4 | 466.5 |
| Fee and commission income | 566.5 | 601.0 | 1,137.3 | 1,197.1 | 1,006.2 |
| Commission expense | 95.9 | 104.8 | 195.3 | 216.7 | 187.6 |
| Net fee and commission income | 470.7 | 496.3 | 942.0 | 980.4 | 818.7 |
| Net trading income | 52.2 | 86.0 | 268.7 | 332.3 | 298.5 |
| Other ordinary results | 17.5 | (0.7) | 9.4 | 26.3 | 2.4 |
| Operating income | 863.1 | 897.8 | 1,752.7 | 1,794.4 | 1,586.1 |
| Personnel expenses | 404.3 | 413.3 | 811.9 | 823.7 | 688.7 |
| General expenses | 160.8 | 228.2 | 444.2 | 376.0 | 301.8 |
| Depreciation of property and equipment | 14.9 | 14.5 | 30.3 | 28.4 | 22.8 |
| Amortisation of customer relationships | 45.7 | 45.6 | 92.0 | 91.6 | 76.4 |
| Amortisation of other intangible assets | 16.8 | 15.3 | 55.4 | 40.3 | 21.8 |
| Operating expenses | 642.5 | 717.0 | 1,433.9 | 1,360.1 | 1,111.6 |
| Profit before taxes | 220.6 | 180.9 | 318.8 | 434.3 | 474.6 |

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| Income taxes | 44.9 | 33.5 | 60.7 | 81.5 | 85.3 |
| Net profit | 175.7 | 147.4 | 258.1 | 352.8 | 389.3 |
| Attributable to: | | | | | |
| Shareholders of Julius Baer Group Ltd. | 175.5 | 147.3 | 257.9 | 352.0 | 388.7 |
| Non-controlling interests | 0.2 | 0.1 | 0.2 | 0.8 | 0.6 |

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 |
| | | (CHF in millions) | | |
| **Balance sheet data:** | | | | |
| **Assets** | | | | |
| Cash | 5,658.7 | 4,241.5 | 1,121.3 | 2,814.8 |
| Due from banks | 8,946.9 | 10,048.1 | 6,586.6 | 6,598.2 |
| Loans | 18,044.3 | 16,408.4 | 14,570.4 | 10,431.2 |
| Trading assets | 3,771.2 | 4,920.2 | 3,752.0 | 2,735.1 |
| Financial investments available-for-sale | 13,230.5 | 12,168.0 | 13,885.1 | 15,011.5 |
| Total assets | 54,202.8 | 52,928.7 | 46,286.6 | 42,729.0 |
| **Liabilities and Equity** | | | | |
| Due to banks | 4,748.2 | 5,670.2 | 4,251.8 | 3,962.4 |
| Due to customers | 37,736.6 | 34,841.2 | 28,846.7 | 27,284.7 |
| Total liabilities | 49,998.7 | 48,618.4 | 41,802.6 | 38,537.2 |
| Total equity | 4,204.1 | 4,310.2 | 4,484.0 | 4,191.8 |
| Total liabilities and equity | 54,202.8 | 52,928.7 | 46,286.6 | 42,729.0 |

| | As at and for the six months ended 30 June | | As at and for the year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | (CHF in millions) | | |
| **Operating data:** | | | | | |
| Assets with discretionary mandate | 25,931 | 24,235 | 24,422 | 22,955 | 22,244 |
| Other AuM | 152,876 | 141,404 | 145,898 | 146,715 | 131,358 |
| Total AuM | 178,807 | 165,639 | 170,320 | 169,670 | 153,602 |
| which double counts(1) | 2,478 | 2,674 | 2,491 | 2,851 | 2,449 |
| Total client assets | 268,888 | 259,972 | 258,113 | 267,313 | 240,877 |
| Net new money for the period | 5,450 | 4,934 | 10,196 | 8,753 | 5,106 |

Note:

(1) Figures include double counting of private label funds managed by and certain structured notes issued by the Julius Baer Group.

| | As at and for the six months ended 30 June | | As at and for the year ended 31 December | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| **Selected ratios:** | | | | | |
| Return on AuM (bps)[1] ................................ | 97.7 | 104.9 | 104.5 | 105.1 | 110.8 |
| Cost to income ratio[2] .................................. | 75.7% | 73.1% | 76.8% | 74.4% | 68.5% |
| Return on equity[3] ....................................... | 8.3% | 6.6% | 5.9% | 8.1% | 10.1% |
| BIS tier 1 ratio[4] .......................................... | 21.4% | 21.7% | 21.8% | 23.8% | 24.2% |

Notes:

(1) Unaudited data. Calculated as operating income/average AuM.

(2) Calculated from audited data (in the annual periods) or unaudited data (in the interim periods) as (personnel expenses (including bonuses) + general expenses + depreciation)/operating income (in per cent.). Excluding valuation allowances, provisions and losses.

(3) Calculated from audited data (in the annual periods) or unaudited data (in the interim periods) as net profit/average total equity (in per cent.).

(4) Audited data for annual periods. Calculated as Tier 1 eligible capital/BIS risk-weighted assets (in per cent.).

# RISK FACTORS

*You should consider carefully, among other things and in light of your financial circumstances and investment objectives, all the information of this Offering Circular and, in particular, the specific risk factors set out below, before making an investment decision with respect to the Tier 1 Bonds. The risks described below may not be the only risks to which Julius Baer, the Group and/or the Holders are exposed. The additional risks not presently known or currently deemed immaterial, in particular risks related to the Acquisition and the integration of IWM, may also impair our business, results of operations and financial condition. The realisation of one or more of these risks could individually or together with other circumstances adversely affect our business, results of operations and financial condition. In addition, each of the risks set out below could adversely affect the trading price of the Tier 1 Bonds or lead to interest not being paid on them or their principal amount being written down as a result of any of which you may lose part or all of your investment. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including the risks we face that are described below and elsewhere in this Offering Circular. The selected sequence of the risk factors mentioned below represents neither a statement about the probability of the risks' realisation nor an assessment of the extent of the economic effects or the importance of the risks. Defined terms used in this section shall have the meanings assigned to them elsewhere in this Offering Circular.*

## Risks Related to the Acquisition

### We may not be able to achieve our targets and the expected benefits of the Acquisition if the amount of AuM transferred is less than expected.

Our targets and commercial objectives are based upon an increase in AuM of between CHF 57 billion and CHF 72 billion by the end of the Integration. If the actual increase in AuM is less than expected, we may not be able to achieve our targets or the expected benefits of the Acquisition. The actual amount of AuM transferred will depend on which of IWM's clients ultimately agree to join the Julius Baer Group, which will in turn mainly depend on whether such clients' financial advisers join the Julius Baer Group. Financial advisers who do not elect to join the Julius Baer Group may persuade clients to follow them to a different firm or clients may choose not to join the Julius Baer Group. Moreover, even if we achieve the target level of CHF 72 billion of AuM, there can be no assurance as to the quality of the transferred assets or the financial advisers that join the Julius Baer Group. The expected increase of the proportion of our AuM derived from growth markets is also based upon the assumption that the breakdown by client domicile of AuM transferred is in proportion to IWM's client domicile breakdown as at 30 June 2012, which may not prove to be the case. Furthermore, we cannot predict the timing of the transfer of AuM in connection with the Acquisition. While we expect a portion of IWM's AuM to be transferred to us upon Principal Completion, AuM are expected to continue to be transferred during the Integration. Pursuant to the acquisition agreement between the Company and Merrill Lynch & Co, Inc. for the purchase of the business of the IWM business outside the United States and Japan (the "Acquisition Agreement"), the consideration for AuM transferred will in principle only be payable as and when they are transferred to the Julius Baer Group. Nonetheless, if our assumptions regarding the amount and quality of AuM transferred in connection with the Acquisition prove to be incorrect, we may not realise the expected benefits of the Acquisition or achieve our targets.

**We face significant management, administrative and financial challenges and may not be able to achieve our key commercial objectives following the Acquisition.**

We face significant management, administrative and financial challenges in achieving our key commercial objectives following the Acquisition. These challenges include:

- retention of IWM's clients, AuM, financial advisers and other key personnel, as well as retention of our own clients and AuM, relationship managers and other key personnel;
- retention of our senior management as well as members of IWM's management team that are expected to join the Julius Baer Group at Principal Completion;
- integration of IWM into our Group in a timely and cost-effective manner, including integration of the various information technology platforms, management information and financial control systems, marketing, sales forces and customer service units and product offerings, as well as the alignment of different company and management cultures; and
- legal, regulatory, contractual, labour or other issues that could arise from the Acquisition.

The failure to address any of these challenges could jeopardise the success of the Acquisition and prevent us from realising our commercial objectives.

***Retention of clients, AuM, financial advisers and other key personnel***

In mergers and acquisitions in the private banking sector, attrition of clients and AuM can be significant and even if IWM's clients transfer their assets to the Julius Baer Group during the Integration, there can be no assurance that we will be successful in retaining those clients. If clients remove their assets from accounts held with us, whether as a result of the departure of financial advisers or otherwise, we may not be able to achieve the revenue growth and AuM we expect following the Acquisition or maintain our historical revenue levels. We may need to expend significant financial and management resources in order to retain clients, AuM and financial advisers that we added in connection with the Acquisition, and we cannot assure you that these efforts will be successful. Furthermore, there can be no assurance that we will be successful in retaining our existing clients, AuM, relationship managers or key personnel following the Acquisition. If we are unable to retain clients, AuM and financial advisers or relationship managers, we will not be able to achieve the potential benefits of the Acquisition, which may have a material adverse effect on our business, results of operations and financial condition.

***Retention of senior management and other key personnel***

Our continued ability to compete effectively in our businesses and our ability to integrate IWM depend on us being able to retain, incentivise and motivate our existing employees. In addition, as a consequence of the Acquisition and the greater importance of growth markets resulting therefrom, our management structure will be realigned at the time of Principal Completion and will include certain members of the IWM management team, including Gregory Gatesman, Sonia Dula and Michael Benz, who will serve as Chief Operating Officer, Head Spanish Speaking Latin America and Chairman of the Asia region, respectively. See "Board of Directors and Management — Realignment of Management Structure". We are therefore also dependent upon our ability to retain, incentivise and motivate prospective members of our management team. We can give no assurance that steps taken by us to encourage the continued service of the prospective management team after the Rights Offering will be effective. We may not be able to increase retention payments or otherwise increase the compensation we pay to attract, retain and motivate our current and expected senior executives.

If key senior executives do leave, our ability to integrate IWM could be impaired and, as competition in the financial services industry for qualified employees is intense, we may need to incur significant costs to replace departing senior executives in a timely manner. Our business, results of operations and financial condition may be adversely affected by the departure of any of our current or expected senior executives.

***Integration of the IWM business into our Group***

If we are unable to integrate IWM's business with our own in a timely and cost-effective manner, the potential benefits of the Acquisition may not be realised. In particular, if we experience the loss of key personnel at IWM or at Julius Baer or if the effort we devote to the integration of our businesses with those of IWM diverts more management or other resources from carrying out our operations than we originally planned, our ability to maintain and increase our AuM and revenues as well as manage our costs could be impaired. Furthermore, our capacity for expansion of our business into other countries and locations and our capacity to expand other parts of our existing business may be impaired.

In addition, we may experience difficulties in ensuring that the financial advisers that join the Julius Baer Group from IWM meet our standards. The business may also prove to be less compatible with our business than we had initially anticipated. In particular, the compensation structure for financial advisers at IWM is grid-based and differs in certain respects from our compensation structure for relationship managers. See "Business — IWM — Organisational Structure — Financial Advisers — Compensation". There can be no assurance that we will be successful in integrating IWM's financial advisers into our business.

Furthermore, the transaction, restructuring and integration costs that we incur in connection with the transfer of the IWM business onto Julius Baer platforms may be greater than we have anticipated. We expect these costs to amount to approximately CHF 400 million (CHF 312 million net of tax). Major components of these costs include, among other things, information technology costs relating to the parallel running of two platforms during the Integration (which we expect to be of relatively limited duration) as well as platform enhancements, infrastructure and migration costs; retention costs required to incentivise and retain financial advisers and other key personnel; and costs relating to the hiring of temporary staff. However, while we believe that our platforms are scaleable, we may for example incur unforeseen additional costs relating to information technology. In addition, pursuant to the Acquisition Agreement, up to USD 125 million (CHF 121 million) of defined restructuring and integration costs in connection with the Acquisition will be borne by Bank of America Merrill Lynch ("Bank of America Merrill Lynch"). To the extent that these costs exceed this amount, we will be required to bear the excess amount. If the costs we incur in connection with the integration of the IWM business are greater than we anticipate, our results of operations could be adversely affected and in particular we may not achieve the target adjusted cost to income ratio set forth under "The Acquisition — Operational targets".

***Legal, compliance, regulatory, contractual, labour or other issues***

We may experience legal, compliance, regulatory, contractual, labour or other issues in connection with the transfer of clients, AuM and financial advisers from IWM to the Julius Baer Group. In particular, we may experience difficulties in transferring client relationships to the Julius Baer Group and our compliance costs may increase. This risk may be heightened in jurisdictions with stringent regulatory restrictions affecting the transfer of clients and AuM or in jurisdictions where there have recently been changes in the legal environment, such as Argentina.

**The targeted earnings accretion of 15 per cent. is a function of share price, which is influenced by factors that are beyond our control, and is also subject to certain other assumptions.**

Based on the price of the Shares prior to the announcement of the Acquisition on 13 August 2012 and assuming that the level of AuM transferred is within the range of CHF 57 billion to CHF 72 billion, we are targeting earnings accretion of approximately 15 per cent. in 2015 based on adjusted net profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets). Given that earnings accretion is dependent upon the prevailing price of the Shares, which is influenced by external factors beyond our control, the achievability of this earnings accretion target may not be realised should such external factors exert adverse pressure on the price of the Shares. Furthermore, the earnings accretion target is relative to a scenario in which the Acquisition does not take place and in which the Julius Baer Group does not undertake any share buybacks until the end of 2015. The earnings accretion target also is based on the assumption that the market performance impact of transferred AuM is similar to the impact on our stand-alone AuM. Should these assumptions prove to be incorrect, we may not achieve the earnings accretion target.

**If IWM does not perform in line with our expectations, we may be required to write down the carrying value of our investment in IWM, which could materially affect our results of operations and financial condition.**

Assuming the transfer of CHF 72 billion of AuM, under purchase accounting rules we expect to record approximately CHF 864 million as goodwill and other intangible assets at the time of Principal Completion. The proportion allocated to client relationships will be amortised. Under IFRS, we are required to test the carrying value of these assets for impairment at least annually and more frequently if we have reason to believe that our expectations for the future cash flows generated by these assets may no longer be valid. If the results of operations and cash flows generated by IWM following the Acquisition are not in line with our expectations, we may be required to write down the carrying value of our investment in IWM. Any write-down could materially affect our results of operations and financial condition. See also "Terms of the Bonds — Interest" in relation to the mandatory obligation not to pay interest on the Tier 1 Bonds in certain circumstances.

**We cannot ensure that the services that Bank of America Merrill Lynch or its affiliates provide pursuant to the Transitional Service Agreement will adequately meet the needs of the Julius Baer Group.**

Although the Enlarged Group will provide independent advice to its clients, there will be a transitional period in which we will rely on Bank of America Merrill Lynch and its affiliates for administrative and other resources to operate part of the business of the Enlarged Group. The transitional period is intended to smooth the integration of the IWM business into the Julius Baer Group. Therefore, in connection with the Acquisition, the Company and Merrill Lynch & Co., Inc. will enter a transitional services agreement (the "Transitional Services Agreement") under which Bank of America Merrill Lynch and its affiliates will provide certain transitional services to us, including services related to financial management and payment systems, information technology, and general administrative matters. The provisions of the transitional services agreement provide that the transitional services will be provided until, at the latest, the date that is twelve months after the Longstop Date (as defined in "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Transitional Services Agreement"), subject to possible extension. However, these services may not be sufficient to meet the needs of the Enlarged Group, and we may be required to dedicate additional resources to ensure the smooth integration of the IWM business. In addition, when the Transitional Services Agreement expires, we may not be able to obtain these services at prices and on terms as favourable as those we currently have, which could result in a material adverse effect on our business, financial position and results of operations would have been had the business operated as a stand-alone entity for all of the periods presented.

**We cannot assure you that we will reach Principal Completion during the fourth quarter of 2012 or the first quarter of 2013, or at all, and regulatory authorities may impose conditions on us or IWM that could prevent us from achieving some of the expected benefits of the Acquisition. If we do not reach Principal Completion, we may not be able to achieve our strategic, financial, operational or competitive objectives and we may not be able to use the net proceeds of the issue of the Tier 1 Bonds as anticipated.**

The issue of Tier 1 Bonds is expected to close on ■ September 2012, prior to Principal Completion, which is expected to occur during the fourth quarter of 2012 or the first quarter of 2013. However, Principal Completion is conditional upon the receipt of regulatory and shareholder approvals with respect to the creation of authorised share capital for the purpose of the partial financing of the Acquisition and the satisfaction of certain other conditions, and we cannot assure you that such conditions will be satisfied. See “Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Conditions to Closing”. The Acquisition is important to executing our strategy, achieving our financial and operational objectives and securing our competitive position. If we do not reach Principal Completion, we may not be able to achieve the operational targets set forth in “The Acquisition — Operational Targets”, which could have a material adverse effect on our business, our competitive position and the value of the Shares. Further, if we fail to reach Principal Completion, the market price of the Shares could decline due to, among other things, a perception that we will not be able to achieve our stated objectives on the estimated timetable or at all.

**We will be required to make pre-payments to Merrill Lynch & Co., Inc. to the extent that we are not able to complete the transfer of a particular IWM business or company by three months after an agreed transfer date. We may not be able to recover all of these pre-payments if AuM do not transfer to us by the date six months after the Longstop Date.**

At Principal Completion, the Company will pay into an escrow account an amount to be calculated on the basis of the estimated AuM still to be transferred after Principal Completion (being USD 75 billion (CHF 72 billion) less the AuM transferred at Principal Completion, expected to be approximately USD 11 billion). Prior to Principal Completion, a separation committee, which will be comprised of an equal number of nominees from our management team and the management team of Bank of America Merrill Lynch and which will be responsible for separating the companies and businesses acquired by the Company pursuant to the Acquisition Agreement, will determine how the companies and businesses will transfer and set a target date for the transfer of each company and business to Julius Baer. We are required to use all reasonable endeavours to ensure that the agreed target date for the transfer of each company and business is met, and Merrill Lynch & Co., Inc. is required to use all reasonable endeavours to assist us in this process. However, to the extent that completion for a particular company or business has not occurred by the date falling three months after an agreed target date for a particular company or business, the Company will release from the escrow account or if the funds in the escrow account are not sufficient, shall pay or procure the payment of, to Merrill Lynch & Co., Inc., a certain amount in cash (based on a fractional proportion of the 1.2 per cent. of the estimated AuM for that company or business). Any such payments will be regarded as a pre-payment of, and will be netted off against, the amount to be paid by the Company to Merrill Lynch & Co., Inc. to the extent that such AuM are subsequently transferred to the Company. If completion in respect of a particular client’s AuM for which a pre-payment has been made does not occur by the date which is six months after the Longstop Date (as defined in “Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Transitional Services Agreement”), Merrill Lynch & Co., Inc. shall be entitled to retain the pre-payment amount in respect of that client’s AuM.

**We may discover contingent or other liabilities within IWM or other facts of which we are not aware that could expose us to loss.**

Although under the terms of the Acquisition Agreement, Merrill Lynch & Co., Inc. has given certain representations, warranties and indemnities regarding IWM in our favour and we have conducted general due diligence in connection with the Acquisition, we may discover issues relating to newly acquired clients or otherwise relating to IWM's business, including legal, regulatory, control, compliance and operational problems, during the course of the integration into our Group that may have a material adverse effect on our reputation as well as on the business, results of operations and financial condition of the Enlarged Group. In addition, liabilities associated with IWM's business may be substantial and may exceed the amount of liabilities we anticipate. Our ability to recover any amounts in respect of the representations, warranties and indemnities given by Merrill Lynch & Co., Inc. is subject to certain customary exceptions. See "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Acquisition Agreement — Indemnities". The matters giving rise to the losses may not be recoverable under the representations, warranties or indemnities or at all.

**The combined financial information of IWM included in this Offering Circular is based on its AuM during the periods for which the financial information was prepared, which may not be transferred to us.**

The combined financial information of IWM included in this Offering Circular is based on its AuM during the periods for which the financial information was prepared. Accordingly, this information does not reflect the actual AuM that will be transferred to us in connection with the Acquisition. Furthermore, IWM is a division of Bank of America Merrill Lynch Global Wealth and Investment Management, a business segment within Bank of America Corporation, is not a stand-alone company and is comprised of components of several Bank of America Corporation companies. These components represent the results and financial position of the IWM business recorded in these Bank of America Corporation companies. In addition to these components, IWM also includes all of the operations of certain companies that are primarily dedicated to IWM operations. These companies correspond to the companies that are being transferred to the Company pursuant to transfers of shares (as indicated in "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Sale Structure"), except that Mership Nominees Limited is not being acquired in the Acquisition and Merrill Lynch Portfolio Managers (Channel Islands) Limited will be transferred pursuant to a business transfer rather than a share transfer. The combined financial information includes all assets, liabilities, revenues, expenses and cash flows directly attributable to the IWM business, including certain overhead and similar costs of Bank of America Corporation allocated to the business using a methodology consistent with how Bank of America Corporation allocates these costs amongst its various businesses. In addition, as IWM is not a stand-alone company, it does not have stand-alone shareholders' equity. The business is funded by Bank of America Merrill Lynch and its affiliates and, to the extent the business has excess funds available, it provides funding to Bank of America Merrill Lynch and its affiliates. Although the assumptions underlying the combined financial information are believed to be reasonable, the combined financial information may not necessarily provide any indication as to the future results of operations of the IWM business or what its results of operations would have been had the business operated as a stand-alone entity for all of the periods presented.

**We are subject to currency risk in respect of the consideration payable in connection with the Acquisition.**

The consideration payable by the Company to Merrill Lynch & Co., Inc. at Principal Completion will be paid in cash. The consideration payable thereafter shall be paid 50 per cent. in cash and 50 per cent. in Shares until such time as: (i) the number of Shares issued by the Company to Merrill Lynch & Co., Inc. as part of the consideration reaches a cumulative value of USD 250 million (based on a fixed reference share price of USD

36.0102 (calculated with reference to the volume weighted average price for the 20 trading day period ending on the date of the Acquisition Agreement and the USD:CHF exchange rate prevailing on the same day), subject to a customary adjustment multiple in the case of dilution events, including the Rights Offering); and (ii) the number of Shares held by Merrill Lynch & Co., Inc. (either directly or beneficially) reaches 5 per cent. (less one ordinary share) of the issued share capital of the Company from time to time (including following completion of the Rights Offering). Thereafter, any consideration payable by us to Merrill Lynch & Co., Inc. will be paid in cash. We may not entirely eliminate currency risk in respect of the consideration payable in connection with the Acquisition in the event that the existing hedge against USD currency risk of the consideration payable to Merrill Lynch & Co., Inc. is not fully effective.

## Risks Related to the Envisaged Launch / Completion of the Rights Offering

### The shareholders at the extraordinary shareholders' meeting may vote against the creation of the authorised share capital for the purpose of the partial financing of the Acquisition or the envisaged Rights Offering may be discontinued.

If the shareholders at the extraordinary shareholders' meeting scheduled for 19 September 2012 will vote against the creation of the authorised share capital out of which the shares for the envisaged Rights Offering will be issued or if the Rights Offering is discontinued or does not proceed, the Acquisition Agreement may be terminated and the Principal Completion will not occur. If the shareholders at the extraordinary shareholders' meeting approve the creation of the authorised share capital, such resolution, as with all resolutions of shareholders of Swiss corporations, will be subject to a possible challenge pursuant to Article 706 and 706a of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*). In connection with such a challenge, the registration of authorised share capital or the capital increase regarding the Shares to be issued in connection with the envisaged Rights Offering in the Commercial Register of the Canton Zurich, Switzerland, may be blocked and therefore delay or prevent the launch or the completion of the Rights Offering and the Acquisition.

If the Acquisition Agreement is terminated and Principal Completion does not occur, we intend to use the net proceeds of the issue of Tier 1 Bonds for general corporate purposes (including the funding of share buyback programmes of the Company).

## Risks Related to the Company, the Enlarged Group and its Industry

### We have been and expect to continue to be affected by global economic and financial market conditions.

As a private banking group operating internationally and with a global client base, our business is affected by changing conditions in the global financial markets and economic conditions generally and perceptions of those conditions and future economic prospects. The outlook for the global economy over the near to medium-term remains challenging and many forecasts predict only stagnant or modest levels of gross domestic product ("GDP") growth across certain of our key markets over that period. GDP in the European Monetary Union (the "EMU") was estimated to have grown by 1.6 per cent. in 2011. Austerity measures in many EMU economies, initiated in response to increased sovereign debt risk, have resulted in weak economic growth and GDP growth in the EMU is predicted to fall in 2012. Despite significant interventions by governments and other non-governmental bodies during and since the financial crisis in 2008/2009, capital and credit markets around the world continue to be volatile and are subject to intermittent and prolonged disruptions. In particular, increasingly during the second half of 2011, a heightened risk of sovereign default relating to certain European Union member states has had a negative impact on capital and credit markets. Such challenging economic and market conditions have exerted downward pressure on asset prices and have led to adverse currency developments, which have in turn limited our ability to increase AuM and generate revenues. The effects of the financial crisis on the real economy could be of significant importance to the investment behaviour of the Julius Baer Group's core client group, i.e. high-net-worth individuals. In particular, the overall decrease in investor confidence has resulted in, and may continue to result in, clients switching to more conservative, lower margin products and services as well as a decline in the volume of transactions that we execute for our clients and hence to reduced commission income and margin erosion.

If the scope and severity of the adverse economic conditions currently experienced by certain European Union member states and elsewhere worsen, the risks we face may be exacerbated. Developments relating to current economic conditions and unfavourable financial environment, including those discussed above, could have a material adverse effect on our business, results of operations and financial condition.

In Europe, countries such as Ireland, Italy, Greece, Portugal and Spain have been particularly affected by the recent financial and economic conditions. The perceived risk of default on the sovereign debt of those countries intensified in the latter part of 2011 particularly in relation to Greece and has continued throughout 2012. This raised concerns about the contagion effect such a default would have on other European Union economies as well as the on-going viability of the euro currency and the EMU. Yields on the sovereign debt of most EU member states have recently been volatile and have trended upward. The European Union, the European Central Bank and the International Monetary Fund have prepared rescue packages for certain of the affected countries and a number of European countries, including Ireland, Italy and Spain, are taking actions to stabilise their economies and reduce their debt burdens. The European Union has also taken policy initiatives intended to address systemic stresses in the Eurozone. Despite these actions, the long-term ratings of a majority of Eurozone countries have recently been downgraded and further downgrades are possible. Furthermore, the effectiveness of these actions is not assured and the possibility remains that the euro could be abandoned as a currency by countries that have already adopted its use, or in an extreme scenario, abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the European and global economies of the potential dissolution of the EMU, exit of one or more EU member states from the EMU and the redenomination of financial instruments from the euro to a different currency, are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk;
- affect adversely the management of market risk and in particular asset and liability management due, in part, to redenomination of financial assets and liabilities; and
- have a material adverse effect on our business, results of operations and financial condition.

**Changes in foreign exchange rates could have an adverse effect on our AuM and results of operations.**

We prepare our consolidated financial statements in Swiss francs. However, a substantial portion of our assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the U.S. dollar and the euro. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the U.S. dollar and between the Swiss franc and the euro have an effect on our reported income and expenses, and on other reported figures such as AuM, risk-weighted assets and regulatory capital. For example, the strengthening of the Swiss franc, especially against the U.S. dollar and euro during 2011 had an adverse effect on our AuM and revenues. See "Operating and Financial Review and Prospects — Julius Baer

Group — Trends, Uncertainties, Demands, Commitments or Events Likely to Have a Material Effect on Our Results". Since exchange rates are subject to constant change, our results are subject to risks associated with changes in the relative values of currencies.

**We have generated, and may continue to generate, lower income from commissions and fees due to changes to regulations and fluctuations in the financial markets, which have led to lower client activity and clients experiencing weaker than expected returns on their investments.**

Our results of operations depend, to a significant extent, on factors that are difficult to control such as the returns enjoyed by our 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 we manage for our clients and therefore could also have a material adverse effect on our results of operations.

A substantial portion of our revenues is directly related to the value of AuM. Therefore, our results of operations depend to a significant extent on factors such as investment returns and risk management, as well as our ability to attract net new money inflows. Because the fees that we charge for managing our clients' portfolios are in many cases based on the value of those portfolios, a market downturn that reduces the value of our clients' portfolios or increases the amount of withdrawals of assets would reduce our revenues. In addition, clients experiencing weaker than expected returns on investments we offer or recommend relative to investment solutions offered or recommended by our competitors could trigger substantial redemptions and outflows from our clients' accounts and hence also have a material adverse effect on our results of operations and financial condition. A market downturn is also likely to lead to a decline in the volume of transactions that we execute for our clients and hence to reduced commission income.

Fluctuations in the financial markets, primarily the fixed income and equity markets, could have a material adverse effect on our business, results of operations and financial condition as interest and dividend income on financial investments is a factor in our overall profitability.

**Our regulatory capital position is subject to change and our business could be adversely affected as a result of changes to capital adequacy and liquidity requirements.**

Our regulatory capital position, as measured by the BIS tier 1 and total capital ratios, is determined by (i) risk-weighted assets and (ii) eligible capital. Both risk-weighted assets and eligible capital are subject to change. Eligible capital would be reduced if we experience net losses, as determined for purposes of the regulatory capital calculation. Eligible capital can also be reduced for a number of other reasons, including adverse currency movements directly affecting the value of equity and prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions. Risk-weighted assets, on the other hand, are driven by our business activities and by changes in the risk profile of our exposures. For instance, substantial market volatility, a widening of credit spreads, a change in regulatory treatment of certain positions (such as the application of stressed value at risk models in accordance with Basel 2.5, which was adopted on 1 January 2011), adverse currency movements, increased counterparty risk or a deterioration in the economic environment could result in an increase in risk-weighted assets. In addition, assuming the transfer of CHF 72 billion of AuM, the regulatory capital that will be required to support the incremental risk-weighted assets of IWM at a BIS tier 1 ratio of 12 per cent. is approximately CHF 300 million. However, there can be no assurance that additional capital will not be required as a result of the transfer of higher than expected risk-weighted assets. Any unanticipated reduction in eligible capital or increase in risk-weighted assets could materially impact our capital ratios.

The required levels and calculation of our regulatory capital and the calculation of our risk-weighted assets are also subject to changes in regulatory requirements or their interpretation. We are subject to regulatory capital requirements imposed by the Swiss Financial Market Supervisory Authority (*Eidgenössische*

*Finanzmarktaufsicht*) ("FINMA"), under which we have higher risk-weighted assets than would be the case under BIS guidelines. Forthcoming changes to Swiss capital adequacy rules will also require an increase in the proportion of equity capital and other types of high quality capital from 1 January 2013 as well as changes in the calculation of risk-weighted assets. These changes are generally expected to have an adverse effect on our capital ratios.

In addition to risk-based capital requirements, FINMA has announced that it intends to introduce a minimum leverage ratio, which is expected to enter into force on 1 January 2018 following an observation period of five years commencing on 1 January 2013. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain our business activities even if we are able to satisfy the risk-based capital requirements.

In December 2010, the Basel Committee on Banking Supervision introduced certain liquidity requirements when it published the "International framework for liquidity risk measurement, standards and monitoring" ("Basel III Liquidity"). The framework comprises two liquidity ratios: the liquidity coverage ratio ("LCR") and the net stable funding ratio ("NSFR"). Both ratios are subject to an observation period that began in 2011. Both the LCR and NSFR will become established standards by 2015 and 2018, respectively. During the observation period, both standards are under review by the Basel Committee on Banking Supervision. In 2011, FINMA issued a circular outlining the implementation plan of the new international liquidity standards. During 2012, a national working group will consult and propose new draft legislation, which is expected to become law by 2013. FINMA also introduced test reporting in 2012 for certain institutions, which will become a general reporting requirement for all banks and brokers in 2013. The results of the test reporting will be used to specify the detailed minimum requirements in 2013. The actual requirements are expected to be effective in 2015 (LCR) and 2018 (NSFR), the same as the Basel III Liquidity timeline.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for Swiss banks or to the calculation thereof, and/or changes in liquidity requirements could have a material adverse effect on our business and could affect our competitive position internationally compared with institutions that are regulated under different regimes. In addition, forthcoming changes to the capital adequacy rules of the EU member states implementing Basel III could also have a material adverse effect on our capital requirements. Basel III introduces new requirements for banks to hold a higher percentage of common equity in their regulatory capital than is currently the case. Minimum ratios for common equity and Tier 1 capital will increase from 2 per cent. to 4.5 per cent. and from 4 per cent. to 6 per cent., respectively, from 1 January 2015. Basel III also introduces two capital buffers, which will apply in addition to the increased common equity and Tier 1 capital ratios. Under Basel III, we will also be required to make greater disclosures on the quality of the capital that we hold.

**We operate in an industry that is highly regulated in Switzerland, the European Union and each of the other markets in which we operate. Increased regulation of the Enlarged Group's business or greater governmental enforcement actions and investigations in the private banking industry could decrease our revenues and profitability.**

Our operations are regulated and supervised by the regulatory authorities in each of the jurisdictions in which we conduct our business. Laws and regulations applied at the national, state, provincial or local level generally grant governmental agencies and industry self-regulatory authorities broad administrative discretion over our activities and the activities of our business units, including the power to limit or restrict business activities. It is possible that laws and regulations governing our operations or particular investment products could be amended or interpreted in a manner that is adverse to us. To the extent that amendments to existing regulations or new regulations reduce the sale, or increase the redemptions, of the products and services we offer, or negatively affect the investment performance of the products we offer, the Enlarged Group's AuM and revenues could be adversely affected. See "— We are subject to the risk that changes in tax and regulatory regimes could cause clients to transfer their assets out of the Enlarged Group".

In particular, during the recent market turmoil, there has been a substantially enhanced level of government and regulatory supervision, intervention and scrutiny, and there have been changes to regulations applying to financial institutions. Further, there is likely to be a substantial increase in government regulation and supervision of the financial services industry in order to seek to prevent future crises and otherwise ensure the stability of institutions under their supervision, including the imposition of higher capital and liquidity requirements, heightened disclosure standards, further development of corporate governance and employee compensation regimes and restrictions on certain types of transaction structures. Although the Group works closely with its regulators and regularly monitors the situation, future changes in laws, regulations and fiscal or other policies can be difficult to predict and are beyond the control of the Group. Furthermore, laws and regulations may be adopted, enforced or interpreted in ways that could materially adversely affect the Enlarged Group's business, financial condition, results of operations and prospects.

Governmental policies and regulatory changes that could adversely impact the Enlarged Group's business include:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which we operate, may change the structure of those markets and the products offered, or may increase the costs of doing business in those markets;
- changes to other regulatory requirements such as rules on consumer protection and prudential rules relating to capital adequacy and/or liquidity, charging special levies to fund governmental intervention in response to crises (which may not be tax deductible for the Group), separation of certain businesses from deposit-taking and the breaking up of financial institutions that are perceived to be too large for regulators to take the risk of their failure;
- further developments in relation to financial reporting including changes in accounting and auditing standards, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments, producing social instability or legal uncertainty which, in turn, may affect demand for our products and services.

Such new requirements could to differing extents significantly impact the profitability and results of operations of firms operating within the financial services industry, including entities within the Enlarged Group, or could require those affected to alter their current strategies, prevent the continuation of current lines of operations, restrict the type or volume of transactions which may be entered into or set limits on, or require the modification of, rates or fees that may be charged.

Our costs, profitability and available regulatory capital could be adversely affected due to an increase in the cost of compliance following an increase in the scope of regulation to which we and our operations are subject. In addition, we may be subject to certain laws and regulations applicable where our clients reside. Due to the complexity of the regulatory environment in which we operate, we expect that any increases in the volume of regulation to which we are subject will result in a corresponding increase in the cost of compliance.

Whilst there is growing international regulatory cooperation on supervision and regulation of international and European Union banking groups, we are, and will continue to be, subject to the complexity of complying with existing and new regulatory requirements in each of the jurisdictions in which we operate. Where changes in regulation are made they may not be co-ordinated, potentially resulting in the Enlarged Group having to comply with varying and possibly conflicting requirements. The foregoing matters may adversely impact any number of areas of the Group's operations and activities which in turn may have a material adverse effect on its financial condition, results of operations and prospects.

Additionally, we are 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 us and pose a significant challenge in ensuring that our anti-money laundering standards are up-to-date and consistently applied in all circumstances by our employees across all branches and subsidiaries. In the recent past, we and other financial services institutions have experienced increased regulation of our activities as a result of anti-money laundering initiatives in a number of jurisdictions. Furthermore, Switzerland and other jurisdictions in which we operate have proposed or adopted regulations to strengthen prohibitions on money laundering and terrorist financing. Any violation of anti-money laundering rules or even the suggestion of such violations may have severe legal, regulatory and reputational consequences for us and may adversely affect our business, results of operations and financial condition.

**As a result of the cross-border nature of our business, we are exposed to the risk of compliance with differential regulatory regimes.**

As a result of the cross-border nature of our business, we are exposed to the risk that our relationships with our clients may be deemed to be governed by more than one regulatory regime. For example, even if we are providing advice to a client in Switzerland, if the client is domiciled in a foreign country, he may bring an action against us predicated upon the laws of his country of domicile. As a result, we are subject to the risk that we could be deemed to have provided non-compliant advice to the extent that we don't comply with legislation such as the Markets in Financial Instruments Directive ("MiFID"), which applies in EU member states. Even if any such actions are not successful, we may nonetheless incur legal expenses in defending them, which could have an adverse impact on our business, results of operation and financial condition.

**We could become subject to reimbursement claims by our clients and our compliance costs could increase in the event that fees received by us for the distribution of financial products issued by third parties are considered to be "retrocessions".**

Recent case law arising from litigation in Swiss courts has established that fees received by a bank for the distribution of financial products issued by third parties may be considered to be "retrocessions" unless they are received for genuine distribution services. If a fee is deemed to be a retrocession, the bank must disclose to the affected client that it has received a retrocession and must provide the client with sufficient information to calculate the amount of the retrocession in order for the client to validly renounce a claim to the retrocession. If fees received by us for the distribution of financial products issued by third parties are deemed to be retrocessions and if our disclosure in relation to those products is deemed to be insufficient or ineffective, we could become subject to reimbursement claims by our clients. Furthermore, as would be the case with other companies in our industry, our compliance costs could increase as we may need to change our standard disclosure regarding certain financial products and/or make changes to products and distribution set-ups in order to provide our clients with sufficient information to validly renounce claims to retrocessions. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**The EU Commission's proposals in connection with MiFID II may adversely affect our ability to generate fee and commission income.**

The EU Commission's text concerning the Markets in Financial Instruments Directive ("MiFID II") anticipates a ban on independent advisers and portfolio managers from making or receiving third-party payments or other monetary gains. Should such proposals become law, this could impact our ability to generate income from commissions. It is uncertain, however, whether these proposals will become law as the latest EU Council compromise text proposes a relaxation of the proposals. Political agreement on the proposals are expected in the first half of 2013.

Separately to the MiFID II proposals, in the United Kingdom, the Financial Services Authority (the "FSA") has introduced new rules (effective from 31 December 2012) which will impact the distribution of retail investment products to clients within the United Kingdom (known as the "Retail Distribution Review"). The rules include provisions to address the potential for product and remuneration bias. Firms giving investment advice may only be remunerated for the specific investment advice given and will be required to set their own adviser charges, which they must agree with their clients. In addition, firms must meet new standards on how these charges are determined and operate. Moreover, commission bias is expected to end as a result of a ban on product provider commission being paid to investment advisers, which will prevent investment advisers from automatically recommending products that pay commissions. Similar rules may be implemented by other EU member states in the future.

**Non-compliance with regulatory requirements may result in enforcement measures or subject us to significant penalties or increased costs and could adversely affect our reputation, all of which could result in a significant decline in AuM and hence, revenue and profitability.**

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action against us. 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 our business organisations or their key personnel, the imposition of fines and censures on our employees or us, the enforcement of payment obligations to clients or market participants and the imposition of additional capital requirements. We cannot give any assurance that we will not be subject to future regulatory scrutiny, which could give rise to adverse publicity, damage our reputation and/or have a material adverse effect on our business. For example, regulators in certain markets around the world may determine that industry practices generally, and our practices in particular, regarding the provision of services to clients are inconsistent with their interpretations of existing local laws and regulations (such as in relation to licensing, product distribution and consumer protection requirements). Increased costs of compliance with applicable laws and regulations following any such determination could negatively affect our profitability. In addition, private litigation regarding such issues also could result in liability for us, such as a determination that affected contracts are void or unenforceable. Any material loss of investor and/or client confidence as a result of non-compliance or alleged non-compliance with regulatory requirements could result in a significant decline in AuM, which would have an adverse effect on our business, results of operations and financial condition.

**The outcome and time frame of the investigation initiated by the U.S. authorities is unclear and any amount we are required to pay in connection with any resolution of the U.S. investigation could be significant.**

The Company was informed by Swiss authorities over the course of 2011 that U.S. authorities had named it as one of several Swiss banks under investigation in connection with cross-border private banking services provided to U.S. private clients. The Company is in an ongoing, constructive dialogue with U.S. authorities and has cooperated with U.S. authorities with the aim of reaching a resolution of the investigation. In parallel, Swiss authorities are in negotiations with U.S. authorities with the aim of reaching a resolution of the ongoing dispute regarding tax matters between U.S. authorities and the Swiss financial industry, including as to the provision of U.S. taxpayer information by Swiss authorities to U.S. authorities. These negotiations are intended to facilitate the resolution of the investigations of the aforementioned Swiss banks. Given that our ability to reach a resolution of the U.S. investigation is dependent upon an agreement between the U.S. and Swiss authorities regarding the provision of U.S. taxpayer information by Swiss authorities to U.S. authorities, our control over the timing of a resolution is limited and protracted negotiations could have an adverse effect on our reputation, particularly if U.S. authorities elect to initiate unilateral measures against the Company or its employees notwithstanding our cooperation with the investigation. We also cannot predict the amount of any financial settlement and therefore are unable to record a provision in relation to the investigation. If the amount of any financial settlement is significant, our financial condition could be materially adversely affected. Furthermore, the the Company's disclosure of employee and third party information to U.S. authorities in connection with the investigation may give rise to claims against the Company by employees and/or third parties.

**If the Swiss government is unsuccessful in managing pressures on client confidentiality, we could experience outflows of AuM or our business could otherwise be adversely affected.**

Swiss banking legislation protecting client confidentiality has historically been an important factor influencing high net worth individuals' ("HNWIs") choice to hold their assets in Switzerland. Because most of the AuM of our clients are booked in Switzerland, we and other private Swiss banks are exposed to the risk that changes in law or in interpretation of laws by authorities and/or courts that affect client confidentiality may make Switzerland a less attractive location for clients to hold their assets. Pressure on client confidentiality continues to increase worldwide and Germany, the United Kingdom, the United States and other countries as well as a number of institutions such as the OECD have increasingly put pressure on Switzerland to limit the scope of its bank client confidentiality laws. Article 26 of the OECD Model Tax Convention on Income and Capital (the "OECD Model Tax Convention"), upon which many double taxation treaties to which Switzerland is party are based, creates an obligation to exchange information that is foreseeably relevant to the correct application of a tax convention as well as for purposes of the administration and enforcement of domestic tax laws of the contracting states. This has facilitated requests for client data under double taxation treaties. For example, earlier this year, U.S. authorities requested the client data of suspected tax evaders.

Pressure on client confidentiality has also come in the form of investigations and enforcement actions against Swiss banks, including the DOJ investigation. In addition, according to press reports that have been confirmed by the relevant authorities, German authorities have purchased several CDs containing the names of suspected tax evaders in an effort to combat tax evasion by German citizens with accounts at Swiss banks, including Julius Baer. During 2011, the Company reached an agreement with German authorities regarding investigations involving the Group and unknown employees, resulting in the Group making a one-off payment of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax). We may also become subject to further investigations or enforcement actions by authorities in other countries, which could result in us being required to incur significant defence costs and pay fines and could also harm our reputation. These investigations and enforcement actions may also give rise to claims by affected clients and/or our employees.

The Swiss government has sought to manage pressures on client confidentiality, including, among other things, by proposing a final withholding tax (*Abgeltungssteuer*) to be applied unilaterally for certain countries by amending certain double taxation treaties and by entering into negotiations with the United States regarding FATCA. Switzerland signed withholding tax agreements with Germany and the United Kingdom in 2011, and in April 2012 it signed a further withholding tax agreement with Austria. Under these agreements, persons resident in Germany, the United Kingdom and Austria will have their existing banking relationships in Switzerland retrospectively taxed either by making a one-time tax payment or by disclosing their accounts.

If these agreements are implemented, future investment income and capital gains of German, British and Austrian bank clients in Switzerland (which are not disclosed) will be subject to a final withholding tax (*Abgeltungssteuer*), with Switzerland transferring the proceeds to the German, British and Austrian authorities. The aim of these agreements is to prevent tax evasion while preserving bank secrecy. In June 2012, the Swiss parliament approved the withholding tax agreements and the agreements are expected to be ratified by Germany, the United Kingdom and Austria by end of 2012 or in 2013. In Switzerland, a referendum on the agreements may be held in November 2012. Provided that all necessary approvals are received in Switzerland as well as in Germany, the United Kingdom and Austria, the withholding tax agreements are expected to enter into force in 2013. Additional withholding tax agreements may be signed between Switzerland and other countries. There can, however, be no assurance that these withholding tax agreements will enter into force. In Germany, for example, political opposition may prevent the withholding tax agreement from being ratified. In particular, the purchase of further CDs in 2012 by German authorities may affect public perception of the final withholding tax agreement and may compromise its ratification.

In addition, even if the withholding tax agreements deflect pressures on client confidentiality, the impact of the final withholding tax (*Abgeltungssteuer*) on clients may cause them to transfer their assets elsewhere. Clients may also elect to disclose their accounts prior to the implementation of the final withholding tax agreements in their respective countries. This is a particular risk in Germany, where Swiss banks will be required to make pre-payments under the final withholding tax agreement in order to guarantee a minimum amount of taxes derived from participating accounts. At the same time, the purchase of further CDs by German authorities might exert pressure on clients to disclose their accounts. To the extent clients disclose their accounts prior to the implementation of the relevant final withholding tax agreement or otherwise withdraw their assets from the Swiss banking system, we might not be able to set off the amount of the disclosed accounts against the pre-payment we are required to make under the final withholding tax agreements. It should be noted, however, that neither our share of the pre-payment nor clients' response to the final withholding tax agreement can be reliably estimated at this point in time and this risk is therefore difficult to quantify.

Other countries have sought to encourage repatriation of wealth of their citizens held offshore in Switzerland as a means of combating tax evasion. In March 2012, for example, the Spanish government proposed a tax amnesty for the declaration of previously undeclared money. The assets declared will be subject to a 10 per cent. one-off charge. Italy has repatriated wealth on several occasions, with the latest instance occurring in 2009, when approximately €100 billion was repatriated. A 5 per cent. one-off charge was applied to these repatriations.

If we become subject to further investigations or enforcement actions by authorities in other countries, or if the Swiss government is unsuccessful at deflecting pressures on client confidentiality, we could become subject to enforcement actions in other countries, resulting in significant defence costs and/or fines. Moreover, we may experience outflows of AuM from Switzerland to banking centres outside Switzerland and, consequently, attract less new money from new and existing clients. Any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**We are subject to the risk that changes in tax and regulatory regimes could cause clients to transfer their assets out of the Enlarged Group.**

We are subject to the risk that governments in the jurisdictions in which we do business will introduce changes in their tax or regulatory regimes that could adversely affect our ability to offer certain of our products and/or the favourable tax treatment of those products. We are also exposed to the risk that one or more jurisdictions in which we book 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 we do not have banking operations, thereby negatively impacting our AuM. Because a significant portion of our AuM are booked in a location other than the clients' home jurisdictions, we are particularly exposed to regulatory and tax changes that make Switzerland and our other booking centres less attractive locations for clients to hold their assets.

Additionally, we are exposed to changes in tax legislation, rulings and interpretations of existing tax laws that may affect the tax situation of the Enlarged Group.

**Systemic risk resulting from failures by banks, other financial institutions and corporates could adversely affect the Group.**

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms, other financial institutions and exchanges in the markets in which the Enlarged Group operates and cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect us and our contract counterparties. Such systemic risk could have a material adverse effect on our ability to raise new funding and on our business, financial condition, results of operations, liquidity and/or prospects. In addition, the failure of a sufficiently large and influential institution could impact future product sales as a potential result of reduced confidence in the financial services industry.

**Our reputation is one of the most important assets we have and if that reputation is harmed, we may not be able to retain and attract clients and our business, results of operations and financial condition may suffer.**

We are exposed to the risk that negative publicity, press speculation and threatened or actual legal proceedings concerning our business, employees or clients may harm our reputation. Negative publicity could arise, for example, from misconduct by an existing or newly acquired client, which could have a negative impact on us as a result of allegations that we do not fully comply with regulatory requirements or anti-money laundering rules, publicity about politically exposed persons in our client base or allegations that a regulator or prosecutor is conducting investigations involving us. We could also suffer harm to our reputation if investments or financial products we recommend do not perform as expected. We could also experience negative publicity or become subject to legal proceedings in the event that we are not successful in protecting our clients' data or confidential information or in the event of fraud or misconduct committed by one of our employees, agents or third-party distributors or by external asset managers. In particular, in July and August of 2012, we uncovered the unlawful disclosure of client data to German authorities following an internal investigation. A suspect who worked for Bank Julius Baer & Co. Ltd. has been arrested and the matter is being investigated by the Swiss federal prosecution authorities. Although, as reported in the media, we have contacted clients that may have been affected by the unlawful disclosure, there can be no assurance that these clients will not close their accounts or take legal action against us. Furthermore, any resulting damage to our reputation could cause material damage to our business even if legal proceedings are not commenced or are determined in our favour.

Any damage to our reputation could cause existing clients (including clients who join the Julius Baer Group from IWM in connection with the Acquisition) to withdraw their assets and potential clients to be reluctant to do business with us. Furthermore, negative publicity or potential or actual legal proceedings may result in greater regulatory scrutiny and influence market perception of us. Any of these negative effects could adversely affect our business, results of operations and financial condition.

### We face an increase in the intensity of competition.

We compete with a number of large commercial banks and other broad-based financial institutions that have the ability to offer a wide range of products, including loans, deposit taking, securities, investment banking and asset management services, and may benefit from recently instituted government guarantees, all of which may enhance their competitive position. 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 our business. The ability of clients to withdraw assets on short notice requires careful monitoring of, and quick responses to, the activities of our competitors. If we are not able to respond to these activities rapidly enough, we could lose AuM and/or clients, which would negatively impact our business, results of operations and financial condition.

### Our revenue may decline due to competition from alternative trading systems.

Securities and futures transactions are now 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 our commission and trading income and could reduce our market share.

### We may face increased competition with respect to attracting and retaining key management and personnel, and in particular our client relationship managers.

The Enlarged Group faces the risk of losing key employees due to employees joining competitors, pursuing other interests, retirement and other reasons. It has become increasingly important to retain key management personnel. The employment agreements we have with key management do not contain non-competition restrictions in the event they leave us, and therefore, there is nothing that legally prevents them from leaving us to engage in competing business activities. In addition, losing the services of one or more members of our management team could adversely affect our business and possibly prevent us from:

- carrying out our growth strategy successfully, including the integration of IWM;
- retaining and attracting clients;
- managing existing and new legal and regulatory obligations;
- achieving the expected benefits of the Acquisition;
- implementing and monitoring internal financial reporting policies and procedures;
- maintaining or improving operational performance;
- hiring and retaining qualified personnel; and
- training and managing new personnel.

Finally, we may be able to retain key personnel only if we increase retention payments and otherwise increase the compensation we pay to our key personnel. Any such increases could have an adverse effect on our results of operations and financial condition.

In connection with the Acquisition, employment or service agreements with senior managers of IWM that are expected to join senior management positions at the Group upon the completion of the acquisition of the company or business in which they are currently employed are in the process of being finalised. Although we have every expectation that such agreements will be entered into in the short term, to the extent that we are unable to secure employment or service arrangements with such persons and we are not able to employ them as expected or retain them going forward, our integration plans (including operational targets) may not be achieved and our business, results of operations and prospects may suffer.

**We use third parties for certain services, and if these third parties do not perform as contractually required or expected, we may be subject to the risk of client attrition, our reputation may suffer and our businesses may not perform as expected.**

In providing private banking services to our clients, we depend also on third parties for certain services. Although we engage in due diligence and closely scrutinise the third parties we procure services from, ultimately we do not control these third parties and are subject to risk if these third parties do not perform as expected, including as contractually or legally required.

**If we fail or are unable to adequately protect our intellectual property rights, our competitive position could be adversely affected.**

The protection of our brand name is extremely important to our business. Even though we have registered our brand name in the countries in which we operate, it may become necessary for us to defend our intellectual property rights in order to prevent others from misappropriating or infringing the Enlarged Group's brand names. Should we be unable to adequately protect these brand names, our competitive position could be adversely affected. Our brand and reputation might furthermore be adversely affected if a third party, using our 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 our brand could adversely affect our reputation, competitive position and results of operations.

**We are 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.**

In the ordinary course of our business, we are involved in, and may become involved in, legal or regulatory proceedings, including those related to tax matters, that may be costly to defend and could result in large monetary losses, including punitive damage awards, and cause significant harm to our reputation. In particular, we are involved in a number of third-party claims made against us, our affiliates or agents. In certain of these claims, we are unable to make a meaningful estimate of the amount or range of any loss that could result from an unfavourable outcome. Even if we are successful defending the claims against us or in arguing our 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, we from time to time take provisions against any losses which we are more likely than not to incur. For a summary of the governmental, legal and arbitration proceedings which may have a significant adverse effect on the Group's financial position, see "Business — Julius Baer Group — Legal and Arbitration Proceedings".

**We may incur losses from our market making and proprietary trading activities due to market fluctuations.**

We engage in certain limited market making activities principally in respect of our own structured products and proprietary trading activities in foreign exchange, fixed-income and equity markets, including derivatives markets, and are 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. Our 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 our market making and proprietary trading activities, we attempt 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 we use to hedge our exposure to market risks are not effective, we may incur losses. Many of our strategies are based on historical trading patterns and correlations. However, these strategies may not be fully effective in mitigating our 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. See "Business — Julius Baer Group — Risk Management" for a discussion of the policies and procedures we use to identify, monitor and manage the risks we assume in conducting our businesses.

**We may incur losses from our investment of surplus liquidity from clients' deposits in securities.**

We invest a majority of our surplus liquidity from clients' deposits in interest-bearing securities. These investments are intended to be longer-term investments and are not held for trading purposes. We cannot provide assurances that our investments will perform as they have in the past. We may also be forced to sell these investments earlier than anticipated and may incur losses. In addition, there is a risk that interest due under these investments will not be paid. These investments are susceptible to market volatility, and the effects of the current and any future financial crisis could lead to lower credit quality and increased credit spreads, which could significantly decrease their value. See "Business — Julius Baer Group — Risk Management."

**Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk.**

We have 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 are inadequate to address all the risks we face or are not properly adhered to, we may experience material losses.

We take various actions to address risks that arise in our businesses, including entering into hedging transactions to address the market risks relating to our limited market making and proprietary trading activities, prescribing limits on the amount and type of credit risk per counterparty that we may incur in our margin lending activities and prescribing acceptance and monitoring procedures relating to legal and regulatory risks that could arise in connection with our relationships with independent asset managers. Some of these and other methods of managing risks that we employ are based upon our use of observed historical market behaviour. We apply statistical and other tools to these observations to arrive at quantifications of our risk exposures. Our policies and procedures to identify, monitor and manage risks may not be fully effective in mitigating our risk exposure in all economic market environments or against all types of risk, including risks which we fail to identify or anticipate. These methods may not be effective in predicting future risk exposures, which could be significantly greater than historical measures indicate. 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. See "Business — Julius Baer Group — Risk Management" for a discussion of the policies and procedures we use to identify, monitor and manage the risks we assume in conducting our businesses.

**We are exposed to third-party credit risk, and financial or other problems experienced by third parties that may adversely affect our business, results of operations and financial condition.**

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include our clients, trading counterparties, clearing agents, exchanges, clearing houses and other financial institutions. These parties may default on their obligations to us due to lack of liquidity, operational failure, bankruptcy or other reasons. The risk of counterparty default has become increasingly relevant in the current financial crisis. 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 have resulted in losses, including to our principal operating entity (Bank Julius Baer & Co. Ltd.), as a consequence of defaults on securities issued by such institutions and defaults under bilateral derivatives and other contracts entered into with such entities as counterparties.

Virtually all of our private banking related exposure to credit risk is attributable to secured and margin lending activities, which are collateralised primarily by pledges of marketable securities. As a result, our risk management procedures focus strongly on the value of the collateral securing our margin loans in addition to the creditworthiness of the borrower. We may encounter situations where our exposure has become under-collateralised, for example, as a result of sudden declines in market values that reduce the value of the collateral. We may incur losses up to the amount by which the obligation owed to us exceeds the value of the collateral securing such obligation. These losses may have a material adverse effect on our business, results of operations and financial condition. See "Business — Julius Baer Group — Risk Management" for a further discussion of the credit risks to which we are exposed.

**The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates which may change over time.**

In order to establish the value of financial instruments which the Group, under IFRS, recognises at fair value, we rely on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instrument utilised by such valuation models may not be available, or may become unavailable, due to changes in market conditions, as has been the case at times since the commencement of the recent financial crisis. In such circumstances, our internal valuation models require us to make assumptions, judgements and estimates in order to establish fair value. In common with other financial institutions, these internal valuation models are complex, and the assumptions, judgements and estimates we are required to make often relate to matters that are inherently uncertain, such as expected cash flows, the ability of borrowers to service debt, asset price appreciation and depreciation, and relative levels of defaults and deficiencies. Such assumptions, judgements and estimates may need to be updated to reflect new information, changing trends and market conditions. The resulting change in the fair values of financial instruments could have a material adverse effect on our financial condition, results of operations and prospects.

**We have a certain degree of client concentration, and to the extent that we are unable to retain these clients or sufficiently diversify its client base, our results of operations may suffer.**

As an institution engaged primarily in private banking, we are exposed to a certain degree of client concentration risk. A significant portion of our customers are HNWIs. 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 we have made progress in diversifying the geographical mix of our client base, we will continue to be exposed to client concentration risk, including following completion of the Acquisition. In addition, a limited number of ultra high net worth individuals will continue to be significant to us in terms of AuM. If we are unable to retain these clients or sufficiently diversify our client base, our results of operations and financial condition may be adversely affected.

**A deterioration of our credit ratings could result in increased funding costs, may damage client perceptions and may have a material adverse impact on our liquidity.**

Our credit ratings affect both the terms on which creditors are willing to transact with us and the willingness of clients to do business with us. Because the interest rate and other terms of our debt agreements depend in part on our credit rating, any deterioration in our credit ratings or a negative outlook given by a rating agency could result in increased funding costs and may limit our funding sources or impact our liquidity. In addition, rating downgrades may limit our ability to conduct certain businesses or may cause clients to be reluctant to do business with us. In August 2012, following the announcement of the Acquisition, Moody's Investors Service downgraded by one notch the long-term bank deposit rating of Bank Julius Baer & Co. Ltd. to A1 from Aa3, and downgraded its stand-alone bank financial strength rating to C+, equivalent to a stand-alone credit assessment of a2, from B-/a1. Though we expect the impact of this credit rating downgrade to be minimal, the negative consequences of any further downgrade of our credit rating could negatively impact our funding costs and liquidity, which could materially adversely affect our business, results of operations and financial condition.

**Operational risks may disrupt our businesses, result in regulatory action against us or limit our growth.**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. We face operational risk arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. Our businesses are highly dependent on our ability to process, on a rapid basis, a large number of transactions across several and diverse markets in many currencies, and the transactions we process have become increasingly complex. Consequently, we rely heavily on our financial, accounting and other data processing systems. In the future, if any of these systems does not operate properly or is disabled, we could suffer financial loss, a disruption of our businesses, liability to clients, regulatory intervention and/or reputational damage. In addition, the inability of our systems to accommodate an increasing volume of transactions could constrain our ability to expand our businesses.

Information security, data confidentiality and integrity are of critical importance to our business. Despite our vast array of security measures to protect confidentiality, integrity and availability of our systems and information, it is not always possible to anticipate the evolving risk landscape and mitigate all risks to our systems. We could also be affected by risks to the systems and information of clients, vendors, service providers, counterparties and other third parties.

**We are exposed to the risk of losses as a result of employee fraud, misconduct or improper practice.**

Fraud, misconduct or improper practice by any of our employees or employees from IWM that join us in connection with the Acquisition could expose us 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 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 us 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 our reputation. Such financial losses and reputational damages may adversely affect our business, results of operations and financial condition.

## Risks Related to the Tier 1 Bonds

### Complexity of the Tier 1 Bonds as financial instruments.

The Tier 1 Bonds are novel and complex financial instruments. As a result, an investment in the Tier 1 Bonds will involve certain increased risks. Each potential investor in the Tier 1 Bonds must determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Tier 1 Bonds, the merits and risks of investing in the Tier 1 Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of the investor's particular financial situation, an investment in the Tier 1 Bonds and the impact the Tier 1 Bonds will have on the investor's overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Tier 1 Bonds including a total loss of the investment; and (iv) be able to evaluate (either alone or with the help of financial, legal and/or tax advisors) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and the investor's ability to bear the applicable risks.

Before investing in the Tier 1 Bonds, each potential investor should have understood thoroughly the Terms of the Tier 1 Bonds and be familiar with them and the content of this Offering Circular and any applicable supplement.

### The Tier 1 Bonds have no scheduled maturity.

The Tier 1 Bonds have no scheduled maturity or redemption date. The Issuer is under no obligation to redeem the Tier 1 Bonds at any time. The Tier 1 Bonds may be redeemed at the option of the Issuer on the First Call Date or on any Interest Payment Date following the First Call Date or, in certain circumstances as specified in the Terms of the Tier 1 Bonds, before that date. There can be no assurance, however, that the Issuer will opt to redeem the Tier 1 Bonds at any time. Prospective investors should be aware that they may be required to bear the financial risks of an investment in the Tier 1 Bonds for an indefinite period of time.

### The Tier 1 Bonds may be written down in part or to zero (in the latter case the Tier 1 Bonds will be automatically cancelled).

You will lose the entire amount of your investment in the Tier 1 Bonds upon the occurrence of a Viability Event and you may lose part or the entire amount of your investment upon the occurrence of a Write-down Trigger Event, each of which will lead to a write-down. Upon the occurrence of a Viability Event, the full principal amount of the Tier 1 Bonds will automatically be written down to zero and the Tier 1 Bonds cancelled. Upon the occurrence of a Write-down Trigger Event the Prevailing Notional Amount of the Tier 1 Bonds will be reduced by the relevant Write-down Amount and as a consequence it is likely that the Tier 1 Bonds will be written down to zero and the Tier 1 Bonds cancelled upon the occurrence of a Write-down Trigger Event. Any write-down will be permanent meaning that the Tier 1 Bonds, if written down, will not be written up subsequently.

A "Write-down Trigger Event" will be deemed to have occurred if, on the Business Day following the publication of a Relevant Report (an "Initial Trigger Test Date") during the period from (and including) the Issue Date to (but excluding) the Redemption Notice Date (if any) the Relevant Capital Ratio as per the relevant Cut-off Date is less than the Write-down Threshold Ratio and the Issuer delivers to the Holders' Representative within five (5) Business Days from the Initial Trigger Test Date a certificate signed by two Authorised Signatories certifying that the Relevant Capital Ratio as per the immediately preceding Cut-off Date is less than the Write-down Threshold Ratio.

"Write-down Threshold Ratio" means 5.125 per cent.

"Write-down Amount" means the amount required to be deducted from the Prevailing Notional Amount, as determined by the Issuer in consultation with the Regulator after a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, as will (together with any substantially concurrent conversion, write-off or write-down of Holders' claims in respect of any other capital instruments of the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into equity, written-off or written-down at that time (including capital instruments with a write-down, write-off or conversion threshold equal to or higher than the Write-down Threshold Ratio, provided that the conversion, write-off or write-down in respect of capital instruments with a write-down, write-off or conversion threshold higher than the Write-down Threshold Ratio shall for that purpose take priority over any write-down of the Tier 1 Bonds)), restore the Relevant Capital Ratio back to a level equal to or, if required by the Regulator, higher than the Write-down Threshold Ratio, provided that, for the avoidance of doubt, the maximum Write-down Amount shall be equal to the Prevailing Notional Amount.

A "Viability Event" will be deemed to have occurred if either:

(i) the Regulator has notified the Issuer that it has determined that the write-down of the Tier 1 Bonds, together with the conversion, write-down or write off of Holders' claims in respect of any other instruments that, pursuant to their terms or by operation of laws are capable of being converted into equity, written-down or written-off at that time, is, because customary measures to improve the Issuer's capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business; or

(ii) customary measures to improve the Issuer's capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of Extraordinary Support directly or indirectly from the Public Sector.

"Public Sector" means the federal or central government or central bank in the Issuer's country of incorporation.

"Extraordinary Support" means any support (other than support that (x) is made in the ordinary course of business, or (y) is the result of customary transactions and arrangements) that has, or imminently will have, the effect of improving the Issuer's capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

*For a detailed description see: "Terms of the Bonds — Condition 8 "Contingent and Subsequent Write-down upon the occurrence of a Write-down Trigger Event" and Condition 9 "Write-off upon the occurrence of a Viability Event" of the Terms of the Bonds. Generally, defined terms shall have the meanings as ascribed to them in the definition-section of the "Terms of the Bonds".*

**The circumstances that may trigger a write-down are unpredictable.**

The occurrence of a Write-down Trigger Event or Viability Event is inherently unpredictable and depends on a number of factors, any of which may be outside of the Issuer's control.

In particular, the occurrence of a Write-down Trigger Event depends, in part, on the calculation of the Relevant Capital Ratio (which shall mean prior to the Basel III Implementation Date, the Core Tier 1 Ratio and, on or after the Basel III Implementation Date, the CET1 Ratio), which can be affected, among other things, by the growth or otherwise of the Issuer's business and its future earnings, expected distribution of profits by the Issuer, regulatory changes (including possible changes in regulatory capital definitions and calculations) and the Issuer's ability to manage Risk Weighted Positions across its various businesses.

The occurrence of a Viability Event is subject to, inter alia, a subjective determination by the Regulator of the viability of the Issuer. As a result, the Regulator may require the write down of the Prevailing Notional Amount of the Tier 1 Bonds to zero in circumstances that are beyond the control of the Issuer, as detailed below.

The occurrence of a Viability Event is dependent upon, among other things, the subjective determination of the FINMA regarding the viability of the Issuer. Namely, it is up to the FINMA to determine whether a write-down of the Tier 1 Bonds to zero, together with the conversion, write-down or write-off, as applicable, of Holders' claims in respect of any other capital instruments issued by the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into equity, written down or written off, is, because customary measures to improve the Issuer's capital adequacy are inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business. Additionally, if customary measures to improve the Issuer's capital adequacy are inadequate or infeasible and, as a result, the Issuer has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course), it is up to the FINMA to determine whether the Issuer would have become insolvent, bankrupt, unable to pay a material portion of its debts as they fall due or unable to carry on its business without such extraordinary support, and the FINMA has considerable discretion in making such determination. As a result, the FINMA may require, or the Swiss federal government may take actions contributing to the occurrence of, a write-down in circumstances that are beyond the control of the Issuer and with which the Issuer does not, at the relevant time, agree.

Because of the inherent uncertainty regarding the determination of whether a Write-down Trigger Event or Viability Event has occurred, it will be difficult to predict when, if at all, a contingent write-down of the Tier 1 Bonds will occur. Accordingly, trading behaviour in respect of the Tier 1 Bonds is not necessarily expected to follow trading behaviour associated with other types of subordinated securities. Any indication that the Issuer is heading towards a condition that could result in the occurrence of a Write-down Trigger Event or a Viability Event can be expected to have an adverse effect on the market price of the Tier 1 Bonds.

In addition, according to article 25 et seq. of the Swiss Banking Act, the FINMA has broad statutory powers to take measures in relation to banks if they (i) are overindebted, (ii) have serious liquidity problems or (iii) fail to fulfil the applicable capital-adequacy provisions after expiry of a deadline set by the FINMA. If one of these pre-requisites is met, the FINMA is authorised (a) to open restructuring proceedings (*Sanierungsverfahren*) or (b) to open liquidation (bankruptcy) proceedings (*Bankenkonkurs*) and/or (c) to impose protective measures (*Schutzmassnahmen*) even if, at that time, a Write-down Trigger Event or a Viability Event with respect to the Issuer has not occurred. The Swiss Banking Act grants significant discretion to the FINMA. In particular, protective measures that may be imposed by the FINMA include a broad variety of measures such as a bank moratorium (*Stundung*) or a maturity postponement (*Fälligkeitsaufschub*) and may be ordered by the FINMA either on a stand-alone basis or in connection with reorganisation or liquidation proceedings. In a restructuring proceeding, the resolution plan may, among other things, provide for (i) the transfer of the property of banks or parts thereof with assets and debt as well as contracts to another entity, and/or (ii) haircuts on obligations owed by banks. As of the date of this Offering Circular, and pending issuance of the new related implementing ordinances, there is no clear guidance on what impact the revised regime would have on the rights of the Holders under the Tier 1 Bonds if one or several of measures under the revised insolvency regime were imposed in connection with a restructuring of the Issuer.

### Interest payments may be cancelled.

Payment of interest, if any, on any Interest Payment Date is at the sole discretion of the Issuer. The Issuer may elect not to pay interest, in whole or in part, on any Interest Payment Date or Redemption Date (if any).

Payments of interest on any Interest Payment Date or Redemption Date (if any) will be limited and will not be paid, or not paid fully to the extent:

(i) the amount of such interest otherwise due, together with (x) any interest payments or distributions scheduled to be paid or made during the Relevant Period on Parity Securities, and (y) any Distributions scheduled to be paid or made with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or

(ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the Tier 1 Bonds or any Parity Securities.

In the event where (x) mandatory cancellation of interest only applies in part, and (y) the Issuer elects to make such interest payment that is not prohibited to be made, the interest payable on the Tier 1 Bonds shall be made pro rata with the interest payments or distributions on Parity Securities scheduled to be paid or made during the Relevant Period.

Any interest which is not paid, in accordance with Condition 2(b) or Condition 2(c) of the Terms of the Bonds, shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

**The interest rate on the Tier 1 Bonds will be reset on the First Call Date, which can be expected to affect the interest payment on an investment in the Tier 1 Bonds and the market value of the Tier 1 Bonds.**

The Tier 1 Bonds will initially earn interest at the fixed rate of ■ per cent. per annum until (and including) the First Call Date. From (but excluding) the First Call Date, however, the interest rate will be reset to a rate which will be equal to the sum of the relevant 5-year Mid Swap Rate and the Margin. This reset rate could be less than ■ per cent. per annum and could affect the market value of an investment in the Tier 1 Bonds.

**The Tier 1 Bonds have not been and will not be rated.**

The Issuer does not intend to have the Tier 1 Bonds rated. Rating agencies may assign credit ratings to the Tier 1 Bonds without any solicitation from the Issuer. A rating is not a recommendation to buy, sell or hold the Tier 1 Bonds and may be subject to revision or withdrawal at any time by the assigning rating organisation.

**No restrictions from issuing further debt or guarantees which rank senior to or *pari passu* with the Tier 1 Bonds.**

There is no restriction on the amount of liabilities which the Issuer may issue, guarantee or otherwise incur which rank senior to the Tier 1 Bonds or *pari passu* with the Tier 1 Bonds. The issue of any such debt or securities or guarantees may reduce the amount, if any, recoverable by the Holders in a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against the Issuer, or may increase the likelihood that the Issuer may elect to cancel or be obliged to cancel payments of interest under the Tier 1 Bonds. Consequently, the Holders could suffer direct and materially adverse consequences, including the loss of all interest and principal.

**The Issuer may redeem the Tier 1 Bonds under certain circumstances.**

The Tier 1 Bonds may be redeemed at the option of the Issuer (i) on the First Call Date or on any Interest Payment Date following the First Call Date; or (ii) following the occurrence of a Regulatory Event or a Tax Event (for a detailed description see: “Terms of the Bonds — Redemption”).

The Issuer may exercise its option to redeem the Tier 1 Bonds when its cost of borrowing is lower than the interest rate payable by the Issuer on the Tier 1 Bonds. There can be no assurance that, at the relevant time, Holders will be able to reinvest the amounts received upon redemption, if any, at a rate that will provide the same return as their investment in the Tier 1 Bonds. Prospective investors should consider reinvestment risk in light of other investments available at that time.

**The Issuer’s obligations under the Tier 1 Bonds are deeply subordinated.**

In the event of an order being made, or an effective resolution being passed, for the liquidation or winding-up of the Issuer, the rights and claims of the Holders against the Issuer (including any damages awarded for breach of any obligation) in respect of or arising under the Tier 1 Bonds will rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities (the “Senior Obligations”), (ii) *pari passu* among themselves and with the claims of all holders of Parity Securities, and (iii) senior to Equity Capital and any other equivalent items of capital.

Therefore, if the Issuer were liquidated or dissolved, the liquidator of the Issuer would first apply assets of the Issuer to satisfy all rights and claims of holders of Senior Obligations. If the Issuer does not have sufficient assets to settle claims of holders of Senior Obligations in full, the claims of the holders under the Tier 1 Bonds will not be settled and, as a result, the Holders will lose the entire amount of their investment in the Tier 1 Bonds.

In addition, Holders should be aware that, upon the occurrence of a Write-down Trigger Event parts of the principal amount or the full principal amount of the Tier 1 Bonds may automatically be written down. Upon the occurrence of a Write-down Trigger Event leading to a full write down of the principal amount and/or upon the occurrence of a Viability Event, the full principal amount of the Tier 1 Bonds will automatically be written down to zero and the Tier 1 Bonds will be cancelled, and, as a result, the Holders will lose the entire amount of their investment in the Tier 1 Bonds irrespective of whether the Issuer has sufficient assets available to settle the claims of the holders under the Tier 1 Bonds or other securities subordinated to the same or greater extent than the Tier 1 Bonds, in bankruptcy proceedings or otherwise. As a result, even if other Tier 1 Bonds that rank *pari passu* with or junior to the Tier 1 Bonds are paid in full, following a write-down, the Holders of the Tier 1 Bonds will have no rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount.

**The fixed interest rate in respect of the Tier 1 Bonds will be reset periodically.**

The fixed interest rate in respect of the Tier 1 Bonds will be reset periodically every 5 years after the First Call Date. A holder of the Tier 1 Bonds is thus exposed to the risk that the market price of such security falls as a result of changes in the current interest rate on the capital markets.

**Interest subject to Swiss Federal Withholding Tax.**

For purposes of Swiss Federal Withholding Tax, coupon payments on the Tier 1 Bonds have to be split into (i) an interest payment component and (ii) an option premium component. Payments on the interest component under the Tier 1 Bonds are subject to 35 per cent. Swiss Federal Withholding Tax. Payments on the option component are not subject to Swiss Federal Withholding Tax. Neither the Issuer nor any paying agent nor any other person will pursuant to the Terms of the Bonds be obliged to pay additional amounts with respect to Tier 1 Bonds as a result of the deduction or imposition of such withholding tax.

**Payments on the Tier 1 Bonds may be subject to FATCA.**

The Issuer and other non-U.S. financial institutions through which payments on the Tier 1 Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of the Tier 1 Bonds pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010 ("FATCA"). This withholding tax may be triggered if (i) the Issuer is a foreign financial institution ("FFI") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("IRS") to provide certain information on its account holders (making the Issuer a "Participating FFI"), (ii) the Issuer has a positive "passthru percentage", and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on such Tier 1 Bonds is made is not a Participating FFI or otherwise exempt from FATCA withholding.

The application of FATCA to interest, principal or other amounts paid with respect to the Tier 1 Bonds is not clear. In particular, Switzerland has announced that it intends to enter into an intergovernmental agreement with the United States to help implement FATCA for certain Swiss entities. The impact of such an agreement on the Issuer and the Issuer's reporting and withholding responsibilities under FATCA is unclear.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Tier 1 Bonds as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions of the Tier 1 Bonds be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of the Tier 1 Bonds should consult their own tax advisers on how these rules may apply to payments they receive under the Tier 1 Bonds.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE TIER 1 BONDS AND THE HOLDERS IS UNCERTAIN AT THIS TIME. EACH HOLDER OF TIER 1 BONDS SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH HOLDER IN ITS PARTICULAR CIRCUMSTANCE.

**Changes in law.**

The Terms of the Tier 1 Bonds and the Offering Circular are based on Swiss law (including tax law) in effect as at the date of this Offering Circular and the description of the effects thereof. Such laws and the interpretation thereof have been and are subject to change. No assurance can be given as to the impact of any possible judicial decision or change to Swiss law (including tax law) or administrative practice in Switzerland after the date of this Offering Circular nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Tier 1 Bonds.

**No events of default and limited acceleration rights.**

Holders have limited acceleration rights in respect of the Tier 1 Bonds and are only entitled to claim redemption of the Prevailing Notional Amount, if any, of the Tier 1 Bonds in case of the Issuer's bankruptcy, dissolution and/or liquidation. Rights of the Holders in bankruptcy proceedings (*Konkursverfahren*) or any form of composition with creditors (*Nachlassverfahren*) in relation to the Issuer are also limited.

**A trading market may not develop for the Tier 1 Bonds.**

The Tier 1 Bonds are complex and novel financial instruments and have no established trading market and, notwithstanding the fact that the Tier 1 Bonds are expected to be traded and listed on the SIX Swiss Exchange, one may never develop. The Issuer does not intend to apply for the Tier 1 Bonds to be traded on any other exchange. The Issuer cannot assure investors that an active trading market in the Tier 1 Bonds will develop on the SIX Swiss Exchange or, if a market does develop, of the nature of such trading market. Even if an active trading market does develop, no one, including the Syndicate Banks, is required to maintain its liquidity, if any. Holders may not be able to sell their Tier 1 Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market or at all.

**The Tier 1 Bonds are not deposit liabilities of the Bank and will not be insured by any depositor protection scheme or any other government compensation or insurance scheme.**

The Tier 1 Bonds are not deposit liabilities of the Bank and will not be covered by the Swiss Banks and Securities Dealers' Depositor Protection Association (*Einlagensicherung*) nor by any other government compensation or insurance scheme.

**Risk-hedging transactions.**

The ability to eliminate or to restrict the risks of the Tier 1 Bonds arising from their purchase by concluding any hedging transactions depends mainly on the market conditions and the terms and conditions of the specific security. As a consequence, such transactions – if at all possible – may be concluded at unfavourable market prices to the effect that corresponding losses may arise. Prospective investors should therefore not rely on the ability to conclude transactions at any time that will allow them to offset or limit relevant risks.

**Inflation risk.**

Inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on a Tier 1 Bond. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or negative.

**Disclosure with regard to fees.**

Within the context of the offering and sale of the Tier 1 Bonds, the Issuer, any of its affiliates or the Syndicate Banks may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including any levied in association with the distribution of the Tier 1 Bonds, from third parties. Prospective investors should be aware that the Issuer, its affiliates and the Syndicate Banks may retain fees in part or in full.

**Further factors influencing the value of the Tier 1 Bonds.**

The value of a Tier 1 Bond is determined not only by changes in market prices but also by several other factors. More than one risk factor can influence the value of the Tier 1 Bonds at any one time, so that the effect of an individual risk factor cannot be predicted. Moreover, more than one risk factor may have a compounding effect that is also unpredictable. No definitive statement can be made with respect to the effects of combined risk factors on the value of the Tier 1 Bonds.

The market value of the Tier 1 Bonds will be affected by the creditworthiness (as may be expressed by a rating assigned by a rating agency) of the Issuer and a number of additional factors including market interest and yield rates. The Holders may not be able to sell the Tier 1 Bonds or may only be able to sell the Tier 1 Bonds at a discount, which could be substantial, from the Issue Price or the purchase price paid by such purchaser.

**No reliance.**

The Issuer and all of its affiliates respectively disclaim any responsibility to advise prospective investors of the risks and investment considerations associated with the purchase of the Tier 1 Bonds as they may exist at the date hereof or from time to time hereafter.

**Legality of purchase.**

The Issuer has no and assumes no responsibility for (i) the lawfulness of the acquisition of the Tier 1 Bonds by investors or for (ii) the compliance by investors with any law, regulation or regulatory policy applicable to them.

**No voting rights.**

The Tier 1 Bonds do not carry voting rights at shareholders' meetings. Consequently, the Holders cannot influence, *inter alia*, any decisions by the Issuer's shareholders concerning the capital structure of the Issuer.

**In certain instances the Issuer could vary the terms of the Tier 1 Bonds and Holders may be bound by certain other amendments to the Tier 1 Bonds to which they did not consent.**

If the National Regulations (or the Regulator's interpretation thereof) have been amended to permit a capital instrument of the Issuer with New Terms to be treated as Additional Tier 1 Capital, the Issuer may, without the consent of the Holders, amend the Terms of the Tier 1 Bonds in order to align them (to the extent possible) with the terms of any capital instruments that were issued by the Issuer that are different in any material respect from the Terms of the Tier 1 Bonds. While the Issuer cannot make changes to the terms of the Tier 1 Bonds that, in its reasonable opinion, materially adversely affect the rights and claims of the Holders, no assurance can be given as to whether any of these changes will negatively affect any particular Holder. In addition, the tax and stamp duty consequences of holding such amended Tier 1 Bonds could be different for some categories of Holders from the tax and stamp duty consequences for them of holding the Tier 1 Bonds prior to such amendment.

In addition, certain statutory provisions of Swiss law may apply to the Tier 1 Bonds, which allow for the calling of meetings of the Holders to consider matters affecting their interests. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. Further, the Issuer may without the consent or approval of the Holders make such amendments to the Terms of the Bonds of the Tier 1 Bonds, in relation to the substitution of the Issuer in accordance with Condition 10 of the Terms of the Bonds as are necessary to reflect the substitution. In addition, the Issuer and the Holders' Representative may agree to any amendment to the Terms of the Bonds that is (i) formal, minor or technical in nature and, in the reasonable opinion of such parties, not materially prejudicial to the interests of the Holders or (ii) necessary to correct a manifest error.

**No legal and tax advice.**

Each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Tier 1 Bonds. A Holder's effective yield on the Tier 1 Bonds may be diminished by the tax impact on that Holder of its investment in the Tier 1 Bonds.

A Holder's actual yield on the Tier 1 Bonds may be reduced by transaction costs.

**The Tier 1 Bonds are held in the clearing system operated by SIS or in any other relevant clearing system and Holders will have to rely on their procedures for transfer, payment and communication with the Issuer.**

Because the Tier 1 Bonds are held in the clearing system operated by SIS or by any other relevant clearing system, Holders will have to rely on their and their participants' procedures for transfer, payment and communication with the Issuer. The Issuer shall not be held liable under any circumstances for any acts and omissions of any clearing systems as well as for any losses which might occur to a Holder out of such acts and omissions.

The Tier 1 Bonds are intermediated securities (*Bucheffekten*) and as such they will be booked in the clearing system of SIS in accordance with an agreement between SIS and the Issuer, according to which SIS undertakes to maintain records of positions held by or through its participants. Holders will not be entitled to request to receive definitive bonds and transfers of Tier 1 Bonds will have to be made in accordance with the relevant rules and procedures as described in the Terms of the Bonds.

## TERMS OF THE BONDS

The terms and conditions of the Perpetual Tier 1 Subordinated Bonds (the "Tier 1 Bonds") (each a "Condition", and together the "Terms of the Bonds"), issued by Julius Baer Group Ltd. (the "Issuer" or the "Company"), are as follows:

### 1. Amount and Reopening, Form, Denomination, Custodianship and Transfer

(a) The initial aggregate principal amount of the Tier 1 Bonds of Swiss francs ("CHF") ■ (■ million) (the "Aggregate Principal Amount") is divided into bonds (each a "Tier 1 Bond" and, collectively, the "Tier 1 Bonds") with denominations of CHF 5,000 (five thousand Swiss francs) per Tier 1 Bond.

The Issuer reserves the right to reopen and increase the Aggregate Principal Amount within six months of the Issue Date and without prior consultation of or permission from the Holders through the issuance of further bonds which will be fungible with the Tier 1 Bonds (i.e. identical in respect of the Terms of the Bonds, security number and interest rate).

(b) The Tier 1 Bonds are issued in uncertificated form as uncertificated securities (*Wertrechte*) in accordance with Article 973c of the Swiss Code of Obligations.

(c) Such uncertificated securities will then be entered into the main register (*Hauptregister*) of SIX SIS or any other intermediary in Switzerland recognized for such purposes by SIX Swiss Exchange (SIX SIS or any such other intermediary, the "Intermediary"). Once the uncertificated securities are registered in the main register (*Hauptregister*) of the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Tier 1 Bonds will constitute intermediated securities (*Bucheffekten*) ("Intermediated Securities") in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*).

(d) So long as the Tier 1 Bonds are Intermediated Securities, the Tier 1 Bonds may only be transferred by the entry of the transferred Tier 1 Bonds in a securities account of the transferee.

(e) The records of the Intermediary will determine the number of Tier 1 Bonds held through each participant of that Intermediary. In respect of Tier 1 Bonds held in the form of Intermediated Securities, the holders of such Tier 1 Bonds (the "Holders" and, individually, a "Holder") will be the persons holding the Tier 1 Bonds in a securities account (*Effektenkonto*) which is in their name, or in case of intermediaries (*Verwahrungsstellen*), the intermediaries (*Verwahrungsstellen*) holding the Tier 1 Bonds for their own account in a securities account (*Effektenkonto*) which is in their name.

(f) The conversion of the uncertificated securities (*Wertrechte*) into a permanent global certificate (*Globalurkunde*) or individually certificated bonds (*Wertpapiere*) is excluded. Neither the Issuer nor the Holders nor the Principal Paying Agent nor any other party shall at any time have the right to effect or demand the conversion of the uncertificated securities (*Wertrechte*) into, or the delivery of, a permanent global certificate (*Globalurkunde*) or individually certificated bonds (*Wertpapiere*). No physical delivery of the Tier 1 Bonds shall be made.

## 2. Interest

(a) Interest Rate

(i) Initial Fixed Interest Rate

The Tier 1 Bonds will bear interest from (but excluding) ■ September 2012 (the "Issue Date") to (and including) ■ March 2018 (the "First Call Date") at a rate of ■ per cent. per annum, payable in arrear for the first time on ■ March 2013 and thereafter annually in arrear on ■ March in each year (each an "Interest Payment Date"), for the last time on the First Call Date. The first interest period is a short interest period of ■ days from the Issue Date to ■ March 2013 for which interest of CHF ■ per Tier 1 Bond of CHF 5,000 nominal amount will be payable on ■ March 2013.

(ii) Subsequent Fixed Interest Rate

As from (but excluding) the First Call Date, in respect of each successive five-year period (the "Relevant Five-Year Period"), the first such period commencing on (but excluding) the First Call Date and ending on (and including) the fifth anniversary of that date, unless previously redeemed, the Tier 1 Bonds will bear interest payable annually in arrear on the Interest Payment Date with the rate of interest being determined on each Coupon Determination Date at the 5-year Mid Swap Rate plus the Margin.

Interest on the Tier 1 Bonds is computed on the basis of a 360-day year of twelve 30-day months.

(b) Discretionary Interest

The Issuer may, at its sole discretion but subject also to Condition 2(c) below, elect to cancel all or part of any payment of interest which is otherwise scheduled to be paid on an Interest Payment Date or the Redemption Date (if any) by giving notice of such election to the Holders in accordance with Condition 12, and to the Principal Paying Agent, (i) in the case of interest otherwise due on an Interest Payment Date, not more than thirty (30) nor less than ten (10) Business Days prior to the relevant Interest Payment Date, or (ii) in the case of interest otherwise due on the Redemption Date, on the relevant Redemption Notice Date.

Any interest which is not paid, in accordance with this Condition 2(b), shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer for the purpose of these Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

(c) Mandatory Cancellation of Interest

The Issuer shall be prohibited from making, in whole or in part, any payment of interest on the Tier 1 Bonds on the relevant Interest Payment Date or the Redemption Date (if any) to the extent that on such Interest Payment Date or Redemption Date:

(i) the amount of such interest otherwise due, together with (x) any interest payments or distributions scheduled to be paid or made during the Relevant Period on Parity Securities, and (y) any Distributions scheduled to be paid or made with respect to the financial year ended immediately prior to such Interest Payment Date or Redemption Date, shall exceed the amount of Distributable Items as at such Interest Payment Date or Redemption Date; or

(ii) the Issuer is prohibited, by National Regulations or an order of the Regulator, from declaring or making any distributions or other payments, in whole or in part, on, or relating to, the Tier 1 Bonds or any Parity Securities.

In the event where (x) mandatory cancellation of interest only applies in part, and (y) the Issuer elects to make such interest payment that is not prohibited to be made, the interest payable on the Tier 1 Bonds shall be made pro rata with the interest payments or distributions on Parity Securities scheduled to be paid or made during the Relevant Period.

Any interest which is not paid, in accordance with this Condition 2(c), shall not accumulate or be payable at any time thereafter, and such non-payment will not constitute an event of default by the Issuer for the purpose of these Terms of the Bonds or any other purpose, and the Holders shall have no right thereto whether in a liquidation, dissolution or insolvency of the Issuer or otherwise.

(d) Restrictions following non-payment of Interest

If, on any Interest Payment Date, payment of interest scheduled to be made on such date is not made in full on the Prevailing Notional Amount by reason of Condition 2(b) or 2(c):

(i) The Board of Directors of the Issuer shall not directly or indirectly recommend to the shareholders of the Issuer, that any Distribution (other than in the form of Ordinary Shares or other capital stock) be paid or made on any Ordinary Shares or other capital stock of the Issuer; and

(ii) The Issuer shall not directly or indirectly, redeem, purchase or otherwise acquire any Ordinary Shares or other capital stock of the Issuer other than in relation to (a) transactions in securities effected by or for the account of customers of the Issuer or any of its Subsidiaries or in connection with the distribution or trading of, or market making in respect of such securities; (b) the satisfaction by the Issuer or any of its Subsidiaries of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants of the Issuer or any of its Subsidiaries; (c) a reclassification of the capital stock of the Issuer or of any of its Subsidiaries or the exchange or conversion of one class or series of such capital stock for another class or series of such capital stock; or (d) the purchase of fractional interests in shares of the capital stock of the Issuer or any of its majority-owned Subsidiaries pursuant to the provisions of any security being converted into or exchanged for such capital stock,

in each case until the earliest of (x) the interest due and payable on any subsequent Interest Payment Date in respect of the then Prevailing Notional Amount of all outstanding Tier 1 Bonds having been paid in full to the Holders; or (y) all the Tier 1 Bonds having been redeemed or purchased and cancelled in full in accordance with Condition 3; or (z) the Prevailing Notional Amount of the Tier 1 Bonds having been reduced to zero in accordance with Condition 8 or Condition 9.

## 3. Redemption, Purchase and Cancellation

(a) No Fixed Redemption Date

The Tier 1 Bonds are perpetual securities in respect of which there is no fixed redemption date. Unless previously redeemed or purchased and cancelled as provided in these Terms of the Bonds, each Tier 1 Bond is perpetual and shall only be redeemed or purchased as specified in this Condition 3.

The Tier 1 Bonds will not be redeemable at any time at the option of the Holders.

(b) Conditions to Redemption and Purchase

Any redemption or purchase of the Tier 1 Bonds under these Conditions, other than a redemption following a Regulatory Event, is subject to:

(i) the prior approval of the Regulator, if then required;

(ii) as at the Redemption Notice Date and the Redemption Date (or as applicable, the date of purchase), neither a Write-down Trigger Event occurring and being continuing nor a Viability Event occurring; and

(iii) the Issuer's Group, both at the time of, and immediately following the redemption or purchase of the Tier 1 Bonds, being in compliance with the Minimum Capital Requirements.

(c) Redemption at the Option of the Issuer

Subject to Condition 3(b), the Issuer may elect to redeem the Tier 1 Bonds, in whole but not in part, on the First Call Date or on any Interest Payment Date thereafter, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) (the date on which such notice has been given, the "Optional Redemption Notice Date") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "Optional Redemption Date"), at their Prevailing Notional Amount together with any accrued interest to (and including) the Optional Redemption Date.

(d) Redemption upon a Tax Event

Upon the occurrence of a Tax Event, but subject to Condition 3(b), the Issuer may, at any time, redeem the Tier 1 Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) (the date on which such notice has been given, the "Tax Event Redemption Notice Date") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "Tax Event Redemption Date"), at their Prevailing Notional Amount together with any accrued interest to (and including) the Tax Event Redemption Date.

Notwithstanding the foregoing, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem in accordance with this Condition 3(d) is satisfied and the reasons therefor, and such certificate shall be conclusive and binding on the Holders. Prior to the publication of any notice of redemption pursuant to this Condition 3(d), the Issuer shall deliver an opinion of a nationally recognised law firm or independent tax advisers of recognised standing to the Principal Paying Agent to the effect that the circumstances entitling the Issuer to exercise its rights of redemption under this Condition 3(d) have arisen.

A "Tax Event" means that there is more than an insubstantial risk that the treatment of any item of income, gain, loss, deduction or expense of the Issuer related to the Tier 1 Bonds or its ownership of the Tier 1 Bonds, in each case as reflected in the tax returns (including estimated returns) filed (or to be filed) by the Issuer, will not be respected by a taxing authority, as a result of which the Issuer is or will be subject to more than a *de minimis* amount of additional taxes, duties or other governmental charges, the effect of which cannot be avoided by the Issuer taking reasonable measures available to it without any adverse effect on or material cost to the Issuer (as determined by the Issuer in its sole discretion).

(e) Redemption upon a Regulatory Event

Upon the occurrence of a Regulatory Event, the Issuer may, at any time, redeem the Tier 1 Bonds, in whole but not in part, by giving not less than thirty (30) days' notice (which notice shall be irrevocable) (the date on which such notice has been given, the "Regulatory Event Redemption Notice Date") to the Holders in accordance with Condition 12 and notifying the date fixed for redemption (the "Regulatory Event Redemption Date"), at their Prevailing Notional Amount together with any accrued interest to (and including) the Regulatory Event Redemption Date.

Notwithstanding the foregoing, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem in accordance with this Condition is satisfied and the reasons therefor, and such certificate shall be conclusive and binding on the Holders.

A "Regulatory Event" is deemed to have occurred if (i) the Issuer is notified in writing by the Regulator to the effect that the Tier 1 Bonds are not eligible to be treated as Tier 1 Capital at least in part and/or (ii) if the National Regulations are amended with the effect that the Tier 1 Bonds are not eligible to be treated as Tier 1 Capital at least in part.

(f) Purchases

Subject to Condition 3(b), the Issuer or any of its respective Subsidiaries may, either directly or indirectly, at any time purchase Tier 1 Bonds at any price, in the open market or otherwise subject to any prevailing limits or conditions under the National Regulations. Any purchase shall be made in accordance with applicable laws and regulations, including applicable stock exchange regulations. Such Tier 1 Bonds may be held, resold or, at the option of the Issuer, surrendered to the Principal Paying Agent for cancellation as set out in Condition 3(g) below.

(g) Cancellation

All Tier 1 Bonds which are redeemed or surrendered shall forthwith be cancelled. All Tier 1 Bonds so cancelled cannot be reissued or resold.

## 4. Payments

The amounts required for payments with respect to the Tier 1 Bonds will be made available in good time in freely disposable CHF which will be placed at the free disposal of the Principal Paying Agent on behalf of the Holders. If the due date for any payment by the Issuer does not fall on a Business Day, the Issuer undertakes to effect payment for value the Business Day immediately following such due date and the Holders will not be entitled to any additional sum in relation thereto. All payments with respect to the Tier 1 Bonds will be made to the Holders in CHF without collection costs. No payments with respect to the Tier 1 Bonds shall be made at any office of the Issuer.

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Tier 1 Bonds, and each Holder shall, by virtue of being the holder of any Tier 1 Bond, be deemed to have waived all such rights of set-off, compensation or retention.

The receipt by the Principal Paying Agent of the due and punctual payment of the funds in CHF as above provided shall release the Issuer of its payment obligations under the Tier 1 Bonds to the extent of such payments.

If, at any time during the life of the Tier 1 Bonds, the Principal Paying Agent shall resign or become incapable of acting as Principal Paying Agent or as Holders' Representative as contemplated by these Terms of the Bonds or shall be adjudged bankrupt or insolvent, the Principal Paying Agent may be substituted by a duly licensed major Swiss bank or the duly licensed Swiss branch or subsidiary of a major foreign bank chosen by the Issuer. In the event of such a replacement of the Principal Paying Agent, all references to the Principal Paying Agent and to the Holders' Representative shall be deemed to refer to such replacement. Notice of such a replacement shall be published in accordance with Condition 12.

## 5. Statute of Limitations

In accordance with Swiss law, claims for interest payments shall become time-barred after a period of five (5) years and claims for the repayment or redemption of Tier 1 Bonds after a period of ten (10) years, calculated from their respective due dates.

## 6. Taxation

Payments of interest in respect of the Tier 1 Bonds are, to the extent not considered option premium by the Swiss Federal Tax Administration, subject to all applicable taxes, including the deduction of Swiss Federal Withholding Tax (*Verrechnungssteuer*), currently levied at a rate of thirty-five (35) per cent.

All payments with respect to the Tier 1 Bonds are subject in all cases to any applicable fiscal or other laws, regulations and directives to which the Issuer or its agents are or agree to be subject and the Issuer and the agents will not be liable for any taxes or duties of whatever nature imposed or levied pursuant to by such laws, regulations, directives or agreements.

## 7. Status and Subordination of the Tier 1 Bonds

(a) Status

The Tier 1 Bonds constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* among themselves. The rights and claims of the Holders are subordinated as described in Condition 7(b).

(b) Subordination

In the event of an order being made, or an effective resolution being passed, for the liquidation or dissolution of the Issuer, the rights and claims of a Holder against the Issuer in respect of its Liquidation Entitlement shall rank, subject to any obligations which are mandatorily preferred by law, (i) junior to the claims of all holders of unsubordinated obligations of the Issuer and all other subordinated obligations of the Issuer except the claims of all holders of Parity Securities, (ii) *pari passu* among themselves and with the claims of all holders of Parity Securities, and (iii) senior to Equity Capital and any other equivalent items of capital.

"Liquidation Entitlement" means the entitlement of the holder of a Tier 1 Bond in the event of the liquidation of the Issuer, and is equal to the Original Notional Amount or, following Contingent Write-down or Subsequent Write-down, if any, is equal to the then Prevailing

Notional Amount. Following a write down to zero upon the occurrence of a Write-down Trigger Event or a write-off upon the occurrence of a Viability Event the Liquidation Entitlement is zero.

## 8. Contingent and Subsequent Write-down upon the occurrence of a Write-down Trigger Event

(a) Contingent Write-down

If a Contingent Write-down has not previously occurred and a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, the claims of the Holders against the Issuer to receive repayment of the Original Notional Amount on the Redemption Date (if any) shall be reduced by the relevant Write-down Amount (as set out in Condition 8(c)) with effect as of the relevant Write-down Date, and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (such reduction, a "Contingent Write-down") (*bedingte Aufhebung einer Forderung durch Übereinkunft*). If the Write-down Amount is equal to the Original Notional Amount, the claims of the Holders are reduced to zero and the Tier 1 Bonds shall be cancelled.

(b) Subsequent Write-down

If, following a Contingent Write-down a further Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be further reduced by the relevant Write-down Amount (as set out in Condition 8(c)) with effect as of the relevant Write-down Date, and the Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments) against the Issuer with respect to the relevant Write-down Amount (such further reduction, a "Subsequent Write-down") (*bedingte Aufhebung einer Forderung durch Übereinkunft*). If the Write-down Amount is equal to the Prevailing Notional Amount, the claims of the Holders are reduced to zero and the Tier 1 Bonds shall be cancelled.

(c) Write-down Amount

"Write-down Amount" means the amount required to be deducted from the Prevailing Notional Amount, as determined by the Issuer in consultation with the Regulator after a Write-down Trigger Event has occurred and is continuing on the relevant Subsequent Trigger Test Date, as will (together with any substantially concurrent conversion, write-off or write-down of holders' claims in respect of any other capital instruments of the Issuer that, pursuant to their terms or by operation of law, are capable of being converted into equity, written-off or written-down at that time (including capital instruments with a write-down, write-off or conversion threshold equal to or higher than the Write-down Threshold Ratio, provided that the conversion, write-off or write-down in respect of capital instruments with a write-down, write-off or conversion threshold higher than the Write-down Threshold Ratio shall for that purpose take priority over any write-down of the Tier 1 Bonds)), restore the Relevant Capital Ratio back to a level equal to or, if required by the Regulator, higher than the Write-down Threshold Ratio, provided that, for the avoidance of doubt, the maximum Write-down Amount shall be equal to the Prevailing Notional Amount.

(d) Write-down Trigger Event

A "Write-down Trigger Event" shall occur if, on the Business Day following the publication of a Relevant Report (an "Initial Trigger Test Date") during the period from (and including) the Issue

Date to (but excluding) the Redemption Notice Date (if any) the Relevant Capital Ratio as per the relevant Cut-off Date is less than the Write-down Threshold Ratio and the Issuer delivers to the Holders' Representative within five (5) Business Days from the Initial Trigger Test Date a certificate signed by two Authorised Signatories certifying that the Relevant Capital Ratio as per the immediately preceding Cut-off Date is less than the Write-down Threshold Ratio.

Such Write-down Trigger Event shall be continuing on the Subsequent Trigger Test Date unless the Regulator, at the request of the Issuer, has agreed on or prior to the Subsequent Trigger Test Date but after the Initial Trigger Test Date, that a write-down of the Original Notional Amount or Prevailing Notional Amount, as the case may be, is not required as a result of actions taken by the Issuer, circumstances or events which have had, or imminently will have, the effect of restoring the Relevant Capital Ratio as per the Subsequent Trigger Test Date to a level above the Write-down Threshold Ratio.

If the Write-down Trigger Event is continuing on the Subsequent Trigger Test Date, the Issuer shall deliver to the Holders' Representative, on the Business Day following the Subsequent Trigger Test Date (the "Write-down Trigger Event Notice Date"), a certificate signed by two Authorised Signatories designating the Write-down Amount and the Write-down Date (the "Write-down Trigger Event Notice"), provided, however, that the Write-down Date shall be no later than twenty (20) Business Days after the Write-down Trigger Event Notice Date.

If the Write-down Trigger Event is not continuing on the Subsequent Trigger Test Date, the Issuer shall deliver to the Holders' Representative, on the Business Day following the Subsequent Trigger Test Date, a certificate signed by two Authorised Signatories confirming that the Write-down Trigger Event is not continuing on the Subsequent Trigger Test Date and, therefore, a write-down of the Tier 1 Bonds shall not occur at that time.

"Subsequent Trigger Test Date" means, in respect of a Write-Down Trigger Event, the earlier of:

(i) the date falling ten (10) Business Days after the date of publication of the Relevant Report; and

(ii) the date on which the Regulator instructs or requests the Issuer to proceed with the Write-down.

"Write-down Threshold Ratio" means 5.125 per cent.

(e) No interest on Write-down Amount, no Event of Default

Following a Contingent Write-down or a Subsequent Write-down, the Tier 1 Bonds shall not carry any interest on any Write-down Amount and interest will only accrue on the resulting Prevailing Notional Amount. For the avoidance of doubt, neither a Contingent Write-down nor any Subsequent Write-down shall constitute an event of default by the Issuer for any purpose.

(f) No Contingent Write-down or Subsequent Write-down

In accordance with Condition 8(d), no Contingent Write-down or Subsequent Write-down shall occur if, notwithstanding the Relevant Capital Ratio being below the Write-down Threshold Ratio, the Regulator, at the request of the Issuer, has agreed, on or prior to the publication of the Relevant Report, that a Contingent Write-down or Subsequent Write-down, as the case may be, shall not occur because it is satisfied that actions, circumstances or events have had, or imminently will have, the effect of restoring the Relevant Capital Ratio to a level above the Write-down Threshold Ratio.

## 9. Write-off upon the occurrence of a Viability Event

If a Viability Event has occurred, the claims of the Holders against the Issuer to receive repayment of the Prevailing Notional Amount on the Redemption Date (if any) shall be reduced to zero with effect as of the relevant Write-down Date. The Holders shall no longer have any rights whatsoever (including, but not limited to, any right to receive interest payments or any Liquidation Entitlement) against the Issuer with respect to the Tier 1 Bonds (such reduction, a contingent write-down) (*bedingte Aufhebung einer Forderung durch Übereinkunft*) and the Tier 1 Bonds shall be cancelled. For the avoidance of doubt, a Viability Event shall not constitute an event of default by the Issuer for any purpose.

A “Viability Event” means that either:

(i) the Regulator has notified the Issuer that it has determined that the write-down of the Tier 1 Bonds, together with the conversion, write-down or write off of holders’ claims in respect of any other instruments that, pursuant to their terms or by operation of laws are capable of being converted into equity, written-down or written-off at that time, is, because customary measures to improve the Issuer’s capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent the Issuer from becoming insolvent, bankrupt or unable to pay a material part of its debts as they fall due, or from ceasing to carry on its business; or

(ii) customary measures to improve the Issuer’s capital adequacy being at the time inadequate or unfeasible, the Issuer has received an irrevocable commitment of Extraordinary Support directly or indirectly from the Public Sector.

“Public Sector” means the federal or central government or central bank in the Issuer’s country of incorporation.

“Extraordinary Support” means any support (other than support that (x) is made in the ordinary course of business, or (y) is the result of customary transactions and arrangements) that has, or imminently will have, the effect of improving the Issuer’s capital adequacy and without which, in the determination of the Regulator, the Issuer would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

No later than three (3) Business Days after the occurrence of a Viability Event, the Issuer shall deliver to the Holders' Representative a notice signed by two Authorised Signatories, stating that a Viability Event has occurred and designating the Write-down Date (the “Viability Event Notice” and, the date on which such notice is given, the “Viability Event Notice Date”), provided, however, that the Write-down Date shall be no later than ten (10) Business Days after the Viability Event Notice Date.

## 10. Substitution of the Issuer

The Issuer may without the consent of the Holders, at any time substitute for itself in respect of all rights and obligations arising under or in connection with the Tier 1 Bonds any legal entity of which all shares carrying voting rights are directly or indirectly held by the Issuer (the “New Issuer”), provided that:

(a) the Regulator has approved the substitution of the Issuer;

(b) the New Issuer is in the opinion of the Holders’ Representative in a position to fulfil all payment obligations arising from or in connection with the Tier 1 Bonds in freely convertible and transferable legal tender of Switzerland without any additional need to deduct or withhold any taxes or duties at source and to transfer without restriction all amounts required to be paid under the Tier 1 Bonds to the Principal Paying Agent;

(c) the New Issuer has obtained all necessary governmental authorisations of the country of its domicile or its deemed residence for tax purposes; and

(d) the Issuer has issued an irrevocable, subordinated guarantee as per article 111 of the Swiss Code of Obligations subordinated to the same level as the Issuer's payment obligations under the Tier 1 Bonds in respect of the obligations of the New Issuer under the Tier 1 Bonds in form and content satisfactory to the Holders' Representative.

Notice of any substitution shall be published in accordance with Condition 12.

In the event of such substitution, any reference to the Issuer shall be deemed to refer to the New Issuer or the Issuer acting as guarantor, as the case may be, and the Issuer shall have power to make such consequential amendments to the Terms of the Bonds as are necessary to reflect the substitution and the granting of the guarantee.

## 11. Alignment and Amendment

(a) If an Alignment Event has occurred and is continuing, the Issuer may, without the consent of the Holders, amend the Terms of the Bonds in order to align them (to the extent possible) with the New Terms, provided that:

  (i) such amendment does not adversely affect the rights and claims of the Holders under the Tier 1 Bonds;

  (ii) the Regulator has approved such amendment in writing;

  (iii) no Viability Event has occurred prior to the applicable Amendment Effective Date; and

  (iv) the Tier 1 Bonds will, following such amendment, continue to be listed on the SIX Swiss Exchange.

(b) The Issuer shall give the Holders not less than 30 days' notice of such amendment in accordance with Condition 12, which notice (the "Amendment Notice") shall (a) be irrevocable, and (b) state the date on which such amendment shall be effective (the "Amendment Effective Date").

(c) In addition to its rights under clause (a) of this Condition 11, the Issuer and the Holders' Representative may agree to any amendment to the Terms of the Bonds that is (i) formal, minor or technical in nature and, in the reasonable opinion of such parties, not materially prejudicial to the interests of the Holders or (ii) necessary to correct a manifest error.

(d) The Issuer shall notify the Holders of any amendments made pursuant to Condition 11(c) in accordance with Condition 12.

(e) Any amendment made pursuant to this Condition 11 shall be binding on the Holders in accordance with its terms.

An "Alignment Event" shall be deemed to have occurred if the National Regulations (or the Regulator's interpretation thereof) have been amended to permit a capital instrument of the Issuer with New Terms to be treated as Additional Tier 1 Capital.

"New Terms" means, at any time, any terms and conditions of a capital instrument issued by the Issuer that are different in any material respect from the Terms of the Bonds at such time.

## 12. Notices

All notices regarding the Tier 1 Bonds shall be published by the Principal Paying Agent on behalf and at the expense of the Issuer (i) on the internet site of the SIX Swiss Exchange (where notices are currently published under the address http://www.six-swiss exchange.com/bonds/issuers/official_notices/search_en.html) or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

## 13. Listing

Application will be made for the admission to trading and listing of the Tier 1 Bonds on the SIX Swiss Exchange.

The Issuer will use reasonable endeavours to have the Tier 1 Bonds listed on the SIX Swiss Exchange and to maintain such listing until (and including) the third (3rd) Business Day prior to the Redemption Date, if any, pursuant to Condition 3, or to a Write-down Date on which the Prevailing Notional Amount of the Tier 1 Bonds is reduced to zero, pursuant to Condition 8 or 9, as the case may be, as communicated in accordance with Condition 12.

## 14. Governing Law and Jurisdiction

The Terms of the Bonds and the Tier 1 Bonds shall be governed by and construed in accordance with the laws of Switzerland.

Any dispute which might arise based on the Terms of the Bonds and the Tier 1 Bonds shall be settled in accordance with Swiss law and shall fall within the jurisdiction of the courts of the city of Zurich and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland, venue being Zurich 1.

The above mentioned jurisdiction is also exclusively valid for the declaration of the cancellation of the Tier 1 Bonds.

## 15. Role of Credit Suisse

Credit Suisse has been appointed by the Issuer as the Principal Paying Agent and as the Listing Agent with respect to the Tier 1 Bonds and it will or may also act on behalf of or for the benefit of the Holders as Holders' Representative, but only in such cases stated explicitly in these Terms of the Bonds. In any other cases, the Holders' Representative is not obliged to take or to consider any actions on behalf of or for the benefit of the Holders.

## 16. Severability

If at any time one or more of the provisions of the Terms of Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

## 17. Definitions

"Additional Tier 1 Capital" has the meaning ascribed to it under the National Regulations.

"Aggregate Principal Amount" has the meaning set out in Condition 1(a).

"Alignment Event" has the meaning set out in Condition 11.

"Amendment Effective Date" has the meaning set out in Condition 11(b).

"Amendment Notice" has the meaning set out in Condition 11(b).

"Authorised Signatories" means any two authorised officers of the Issuer signing jointly.

"Basel III Document" means the Basel Committee on Banking Supervision document "Basel III: A global regulatory framework for more resilient banks and banking systems" published in December 2010 (rev. June 2011), as amended or replaced from time to time.

"Basel III Implementation Date" means the first date on which the Basel III National Regulations come into force in Switzerland, expected to be 1 January 2013.

"Basel III National Regulations" means the prevailing national banking and capital adequacy laws and regulations in Switzerland, promulgated on a federal and cantonal level and by the Regulator, each of which implementing the Basel III Regulations into national law that are directly applicable to the Issuer's Group (expected to include, without limitation, the CAO(2013) and Circulars of the FINMA based thereon).

"Basel III Regulations" means the capital adequacy standards and guidelines as set out in the Basel III Document and promulgated by the Basel Committee on Banking Supervision.

"Tier 1 Bond or Tier 1 Bonds" has the meaning set out in Condition 1(a).

"Business Day" means any day (other than Saturday or Sunday) on which banks are open the whole day for business in Zurich, Switzerland.

"CAO(2006)" means the Swiss Capital Adequacy Ordinance (*Verordnung über die Eigenmittel und Risikoverteilung für Banken und Effektenhändler (Eigenmittelverordnung, ERV*) vom 29. September 2006) in its version as in force on the Issue Date.

"CAO(2013)" means the Swiss Capital Adequacy Ordinance (*Verordnung über die Eigenmittel und Risikoverteilung für Banken und Effektenhändler (Eigenmittelverordnung, ERV*)) in the revised version published by the Swiss Federal Council on 1 June 2012 and expected to enter into force on 1 January 2013.

"CET1 Capital" means the aggregate reported amount, in CHF, of all items constituting common equity tier 1 capital of the Issuer's Group on a consolidated basis, less any deductions from such common equity tier 1 capital, in each case within the meaning ascribed to these terms under the Basel III National Regulations.

"CET1 Ratio" means, as of the relevant Cut-off Date and expressed as a percentage, the CET1 Capital of the Issuer's Group divided by the Risk Weighted Positions, each (or their constituents) as disclosed in the Issuer's Relevant Reports.

"CHF" means Swiss francs, the lawful currency of Switzerland.

"Contingent Write-down" has the meaning set out in Condition 8(a).

"Core Tier 1 Capital" means Tier 1 less the aggregate amount of all items constituting hybrid tier 1 capital (*Innovatives Kernkapital*) of the Issuer's Group on a consolidated basis, in each case as determined pursuant to the Pre-Basel III National Regulations applicable at the relevant time, expressed in CHF.

"Core Tier 1 Ratio" means, as of the relevant Cut-off Date and expressed as a percentage, the Core Tier 1 Capital of the Issuer's Group divided by its Risk Weighted Positions, each (or their constituents) as disclosed in a Relevant Report.

"Coupon Determination Date" means, in respect of a Relevant Five-Year Period, the 5th Business Day prior to the first day of such Relevant Five-Year Period.

"Credit Suisse" means Credit Suisse AG, Paradeplatz 8, 8001 CH-Zurich.

"Cut-off Date" means the cut-off date for the calculation of the Relevant Capital Ratio in the Relevant Report.

"Distributable Items" means, with respect to any Interest Payment Date, the aggregate of (i) net annual profit, (ii) net profits carried forward, and (iii) freely available reserves, in each case, less any amounts that must be contributed to legal reserves under the laws and regulations applicable to the Issuer, all as appearing in the Relevant Accounts for the financial year ended immediately before the Interest Payment Date.

"Distributions" means any dividends or distributions to shareholders' in respect of the Ordinary Shares or capital stock, whether of cash, assets or other property (including a spin-off), and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including any distribution or payment to holders upon or in connection with a reduction of capital.

"Equity Capital" means the share capital (*Aktienkapital*) and participation capital (*Partizipationskapital*) (if any).

"Extraordinary Support" has the meaning set out in Condition 9.

"FINMA" means the Swiss Financial Market Supervisory Authority FINMA.

"First Call Date" has the meaning set out in Condition 2(a)(i).

"Holder" or "Holders" has the meaning set out in Condition 1(e).

"Holders' Representative" means Credit Suisse in its function as holders' representative or any person appointed as replacement in accordance with Condition 4.

"Initial Trigger Test Date" has the meaning set out in Condition 8(d).

"Interest Payment Date" has the meaning set out in Condition 2(a)(i).

"Intermediary" has the meaning set out in Condition 1(c).

"Intermediated Securities" has the meaning set out in Condition 1(c).

"Issue Date" has the meaning set out in Condition 2 (a) (i).

"Issuer" means Julius Baer Group Ltd., Bahnhofstrasse 36, CH-8001 Zurich.

"Issuer's Group" means the Issuer together with such of its Subsidiaries as are subject, together with the Issuer, to capital adequacy requirements on a consolidated level under the National Regulations.

"Liquidation Entitlement" has the meaning set out in Condition 7(b).

"Listing Agent" means Credit Suisse, appointed as recognized representative pursuant to article 43 par. 1 of the listing rules of the SIX Swiss Exchange to file the listing application (including the application for provisional admission to trading) for the Tier 1 Bonds with the SIX Swiss Exchange.

"Margin" means ■ per cent. per annum.

"Minimum Capital Requirements" means the minimum capital requirements applicable to the Issuer's Group pursuant to articles 33-34a CAO(2006) or articles 41 lit. a through d CAO(2013), as applicable, as amended or replaced from time to time.

"National Regulations" means, up to the Basel III Implementation Date, the Pre-Basel III National Regulations and thereafter, the Basel III National Regulations, each as in effect from time to time.

"New Issuer" means a new issuer substituted for the Issuer in accordance with and pursuant to Condition 10.

"New Terms" has the meaning set out in Condition 11.

"Optional Redemption Date" has the meaning set out in Condition 3(c).

"Optional Redemption Notice Date" has the meaning set out in Condition 3(c).

"Ordinary Shares" means the registered shares of the Issuer from time to time which, as at the Issue Date, are listed on the SIX Swiss Exchange (Swiss Security Number: 10.248.496 / ISIN: CH0102484968).

"Original Notional Amount" means the initial principal amount of a Tier 1 Bond as of the Issue Date, being CHF 5,000 (five thousand Swiss francs).

"Parity Securities" means (i) all obligations of the Issuer in respect of Tier 1 Instruments; (ii) the hybrid tier 1 capital consisting of preferred securities in the amount of CHF 225,000,000 issued by Julius Baer Capital (Guernsey) I Limited and guaranteed by the Issuer and the mirroring notes issued by the Issuer in the same amount and with mirror conditions; and (iii) any other securities or obligations of the Issuer that rank, or are expressed to rank, *pari passu* with the Tier 1 Bonds.

"Pre-Basel III National Regulations" means the prevailing banking and capital adequacy laws and regulations in Switzerland, promulgated on a federal and cantonal level and by the Regulator and directly applicable to the Issuer's Group as of the Issue Date and up to (but excluding) the Basel III Implementation Date (including, without limitation, the CAO(2006) and Circulars of the FINMA based thereon).

"Prevailing Notional Amount" means the principal amount of each Tier 1 Bond outstanding at any given time, accounting for any Contingent Write-down, Subsequent Write-down or write-off following a Viability Event that may have occurred.

"Principal Paying Agent" means Credit Suisse in its function as principal paying agent or any person appointed as replacement in accordance with Condition 4.

"Public Sector" has the meaning set out in Condition 9.

"Redemption Date" means the Optional Redemption Date, the Tax Event Redemption Date or the Regulatory Event Redemption Date.

"Redemption Notice Date" means the Optional Redemption Notice Date, the Tax Event Redemption Notice Date or the Regulatory Event Redemption Notice Date.

"Regulator" means the national regulator having the leading authority to supervise and regulate the Issuer's Group at the relevant time, being at the Issue Date FINMA.

"Regulatory Event" has the meaning set out in Condition 3(e).

"Regulatory Event Redemption Date" has the meaning set out in Condition 3(e).

"Regulatory Event Redemption Notice Date" has the meaning set out in Condition 3(e).

"Relevant Accounts" means the audited financial statements of the Issuer for any financial year for which a set of such financial statements has been published.

"Relevant Capital Ratio" means, prior to the Basel III Implementation Date, the Core Tier 1 Ratio and, on or after the Basel III Implementation Date, the CET1 Ratio.

"Relevant Five-Year Period" has the meaning set out in Condition 2(a)(ii).

"Relevant Period" means the Issuer's current financial year.

"Relevant Report" means (i) any of the Issuer's annual reports or interim reports (*Zwischenberichte*, such interim reports currently consisting of the semi-annual reports (*Halbjahresberichte*)), excluding any press releases or other communications relating to or in connection with such reports or respective results, or (ii) any other special report prepared by the Issuer for the purpose of calculating the Relevant Capital Ratio, which report may be commissioned by the Regulator at any time.

"Risk Weighted Positions" means the aggregate reported amount, in CHF, of all risk weighted positions of the Issuer's Group on a consolidated basis as calculated pursuant to the National Regulations.

"SIX SIS" means SIX SIS Ltd, the Swiss clearing and settlement organisation, Baslerstrasse 100, CH-4600 Olten, or any successor organisation accepted by the SIX Swiss Exchange.

"SIX Swiss Exchange" means SIX Swiss Exchange Ltd, Selnaustrasse 30, CH-8001 Zurich or any successor organization.

"Subsequent Trigger Test Date" has the meaning set out in Condition 8(d).

"Subsidiary" means a direct or indirect subsidiary within the meaning of applicable Swiss law, the financial statements of which are consolidated with those of the Issuer in accordance with applicable law or generally accepted accounting principles.

"Subsequent Write-down" has the meaning set out in Condition 8(b).

"Tax Event" has the meaning set out in Condition 3(d).

"Tax Event Redemption Date" has the meaning set out in Condition 3(d).

"Tax Event Redemption Notice Date" has the meaning set out in Condition 3(d).

"Tier 1" means, prior to the Basel III Implementation Date, the aggregate reported amount, in CHF, of all qualifying components that constitute Tier 1 Capital of the Issuer's Group on a consolidated basis less any deductions required to be made, in each case as determined pursuant to the Pre-Basel III National Regulations applicable at the relevant time.

"Tier 1 Bonds" has the meaning as set out in Condition 1(a).

"Tier 1 Capital" has the meaning ascribed to it under the National Regulations.

"Tier 1 Instruments" means any and all securities or other obligations issued by the Issuer that qualify, or are issued in respect of securities that qualify, in whole or in part as Tier 1 Capital, but excluding Equity Capital.

"Viability Event" has the meaning set out in Condition 9.

"Viability Event Notice" has the meaning set out in Condition 9.

“Viability Event Notice Date” has the meaning set out in Condition 9.

“Write-down Amount” has the meaning set out in Condition 8(c).

“Write-down Date” means the date on which the relevant Contingent Write-down or Subsequent Write-down shall become effective as specified in the relevant Write-down Trigger Event Notice, or the date on which the Prevailing Notional Amount shall be written down to zero as specified in the Viability Event Notice.

“Write-down Threshold Ratio” has the meaning set out in Condition 8(d).

“Write-down Trigger Event” has the meaning set out in Condition 8(d).

“Write-down Trigger Event Notice” has the meaning set out in Condition 8(d).

“Write-down Trigger Event Notice Date” has the meaning set out in Condition 8(d).

“5-year Mid Swap Rate” means the 5-year CHF mid market swap rate calculated on the basis of the rates displayed on ISDAFIX page "CHFSFIX" (or such other page as may replace that page on ISDAFIX, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at 12.00 p.m. (CET) on the Coupon Determination Date. If the 5-year Mid Swap Rate does not appear on that page, it shall be determined by the Principal Paying Agent on the basis of (i) quotations provided by the principal office of each of four major banks in the CHF swap market of the rates at which swaps in CHF are offered by it at approximately 11.00 a.m. (CET) on the Coupon Determination Date to participants in the CHF swap market for a period equal to the Relevant Five-Year Period; and (ii) the arithmetic mean rounded, if necessary, to the nearest 0.00001 (0.000005 being rounded upwards) of such quotations.

# THE ACQUISITION

## Overview

On 13 August 2012, we announced our agreement to acquire IWM. As at 30 June 2012, this business had USD 84 billion (CHF 81 billion) of AuM and approximately 2,100 employees, including approximately 525 financial advisers. The Acquisition is structured as a combination of legal entity acquisitions and business transfers. While Principal Completion is expected to occur during the fourth quarter of 2012 or the first quarter of 2013 following the receipt of regulatory and shareholder approvals and the satisfaction of certain other conditions, the transfer of the businesses we are acquiring is expected to continue during the Integration. We and Bank of America Merrill Lynch will work closely together to develop a detailed plan for the transfer and separation of the acquired business for each jurisdiction. Although there can be no assurance as to the level of AuM that will be transferred to the Julius Baer Group in connection with the Acquisition, we anticipate that the Acquisition will result in additional AuM of between CHF 57 billion and CHF 72 billion by the end of the Integration, which is expected to end in the fourth quarter of 2014 or the first quarter of 2015. Assuming CHF 72 billion of AuM transferred and our existing AuM and total client assets as at 30 June 2012 in the amount of CHF 179 billion and CHF 269 billion, respectively, the Acquisition is expected to increase our existing AuM by approximately 40 per cent. to CHF 251 billion and our existing total client assets to CHF 341 billion at the end of the Integration.

Approximately two-thirds of IWM's AuM as at 30 June 2012 are from clients domiciled in growth markets, mainly Asia, Latin America and the Middle East, with Asia accounting for approximately half of AuM in growth markets. As a result, assuming CHF 72 billion of AuM transferred and that the breakdown by client domicile of this AuM transferred is in proportion to IWM's client domicile breakdown as at 30 June 2012, the proportion of our AuM derived from growth markets is expected to increase from slightly more than one-third to approximately half on a pro forma basis following the Integration.

The consideration payable to Merrill Lynch & Co., Inc. is 1.2 per cent. of AuM, payable as and when AuM are transferred. Assuming the transfer of CHF 72 billion of AuM, the consideration will be CHF 864 million. In addition, we will pay CHF-for-CHF for any net asset value of the companies and businesses that are transferred in the Acquisition, as and when the companies and businesses to which the net asset value is attributable are transferred. The excess of the total purchase consideration over the fair value of the net assets acquired will under purchase accounting rules be recorded as goodwill and other intangible assets at the time of Principal Completion or the relevant Subsequent Completion, as the case may be (of which the proportion allocated to client relationships will be amortised). The total transaction, restructuring and integration costs in connection with the transfer of the IWM business to Julius Baer are expected to amount to approximately CHF 400 million (CHF 312 million after tax). Assuming the transfer of CHF 72 billion of AuM, the regulatory capital that will be required to support the incremental risk-weighted assets of IWM at a 12 per cent. BIS tier 1 ratio is approximately CHF 300 million.

The Julius Baer Group intends to put funding in place at a level that is sufficient to support the acquisition of up to CHF 72 billion of AuM. At that level, the Acquisition is expected to be funded by:

- the issuance of Consideration Shares out of authorised share capital (as proposed to the shareholders for approval in the extraordinary shareholders' meeting to be held on 19 September 2012) to Merrill Lynch & Co., Inc. in the amount of CHF 243 million (USD 250 million);
- cash raised through the issuance of new Shares by way of a Rights Offering in the amount of up to CHF 500 million;

- existing excess capital in the amount of up to CHF 530 million; and
- the issuance of hybrid instruments in the amount of at least CHF 200 million.

We have purchased USD in order to hedge a portion of the consideration, with the remaining portion of the consideration being hedged through our natural USD long position, which arises through our future income in USD in excess of our USD denominated expenses.

In connection with the Acquisition, we will enter into the Strategic Cooperation Agreement with Merrill Lynch & Co., Inc., pursuant to which the Julius Baer Group and Bank of America Merrill Lynch will refer certain clients to each other and Bank of America Merrill Lynch will provide certain products and services to the Julius Baer Group, including global equity research, product offerings and structured and advisory products. See "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Strategic Cooperation Agreement" for further details of these arrangements.

## Rationale for the Acquisition

### Strategic Rationale

The Acquisition represents a rare opportunity to acquire an international pure-play wealth management business of significant size. We believe that the Acquisition is an excellent strategic, cultural and geographic fit that will allow us to strengthen our position as the leading pure-play Swiss private banking group.

The compatibility and complementary nature of the businesses is notably evidenced, among other things, by the similar composition of assets, which implies that clients of the two businesses have similar needs.

In particular, we believe that the Acquisition will:

***Add substantial scale to existing locations both in growth markets and in Europe and a presence in a number of key new locations***

We expect that the Acquisition will add substantial scale to our business, in particular in the key growth markets of Asia, Latin America and the Middle East. While a significant portion of IWM's business is based in locations in which we are already present, such as Geneva, London, Hong Kong, Singapore, Dubai and Montevideo, eight countries will be added to our existing network as a result of the Acquisition, including offices in Bahrain, the Netherlands, India, Ireland, Lebanon, Luxembourg, Panama and Spain. Following the Integration, we will be present in more than 25 countries operating in approximately 50 locations globally. As part of the Integration, the entities acquired in the Acquisition will be rebranded under the Julius Baer name.

***Increase our exposure to growth markets, reduce our exposure to the Swiss franc and increase the proportion of on-shore assets***

We expect that the Acquisition will increase our exposure to growth markets. Approximately two-thirds of the CHF 72 billion of AuM that we have targeted to be transferred are from clients domiciled in growth markets, mainly Asia, Latin America and the Middle East. Asia is expected to account for approximately half of AuM in growth markets that are expected to be transferred, which will strengthen Asia as our "second home market". The proportion of our AuM derived from growth markets is expected to increase from slightly more than one-third to approximately half on a pro forma basis following the Integration. We also expect that the Acquisition will significantly reduce our net currency exposure to the Swiss franc. In addition to the shift towards growth markets, we believe that the Acquisition will significantly increase the proportion of locally, *i.e.*, on-shore, advised assets.

***Further strengthen our unique value proposition to our sophisticated client base***

Following the Acquisition, the Julius Baer Group's client-centric approach and open product platform will be preserved, while the complementary service models and cultures of the two businesses are expected to promote the exchange of skills and experience. Clients are expected to benefit from strengthened local franchises and broader product ranges as a result of the Acquisition. In particular, clients of IWM will benefit from gaining access to our discretionary portfolio management and credit offerings. They will also benefit from our global booking centre capabilities, which include seven booking centres. We believe that clients of the Enlarged Group will also benefit from IWM's sophisticated transaction and trading orientation, as well as the experience of IWM's financial advisers, with nearly half of IWM's financial advisers having served more than 10 years with IWM.

***Reinforce our attractiveness as an employer of choice in private banking***

We believe that the Acquisition will contribute to our attractiveness as an employer of choice in the private banking industry.

***Strengthen our business through the Strategic Cooperation Agreement with Merrill Lynch & Co., Inc.***

In connection with the Acquisition, we have agreed to enter into the Strategic Cooperation Agreement with Merrill Lynch & Co., Inc., pursuant to which Bank of America Merrill Lynch will provide certain products and services to us, including global equity research, product offerings and structured and advisory products. In addition, the Strategic Cooperation Agreement will provide for cross referrals of clients between Bank of America Merrill Lynch and the Julius Baer Group. See "Summary of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement — Strategic Cooperation Agreement" for further details of these arrangements.

### Financial Rationale

The consideration payable to Merrill Lynch & Co., Inc. is 1.2 per cent. of AuM, payable as and when AuM are transferred. Assuming the transfer of CHF 72 billion of AuM, the consideration will be CHF 864 million. In addition, we will pay CHF-for-CHF for any net asset value of the companies and businesses that are transferred in the Acquisition, as and when the companies and businesses to which the net asset value is attributable are transferred. The excess of the total purchase consideration over the fair value of the net assets acquired will, under purchase accounting rules, be recorded as goodwill and other intangible assets at the time of Principal Completion or the relevant Subsequent Completion, as the case may be (of which the proportion allocated to client relationships will be amortised). The total transaction, restructuring and integration costs in connection with the transfer of the IWM business to Julius Baer are expected to amount to approximately CHF 400 million (CHF 312 million after tax). Assuming the transfer of CHF 72 billion of AuM, the regulatory capital that will be required to support the incremental risk-weighted assets of IWM at a 12 per cent. BIS tier 1 ratio is approximately CHF 300 million. Based on the price of the Shares prior to the announcement of the Acquisition on 13 August 2012 and assuming that the level of AuM transferred is within the range of CHF 57 billion to CHF 72 billion, we are targeting accretion to earnings per share of approximately 15 per cent. in 2015 based on adjusted net profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets). This earnings accretion target is relative to a scenario in which the Acquisition does not take place and in which the Julius Baer Group does not undertake any share buybacks until the end of 2015.

## Transaction, restructuring and integration costs

We expect that the total transaction, restructuring and integration costs necessary to transfer the business onto Julius Baer platforms will amount to approximately CHF 400 million (CHF 312 million net of tax). Major components of these costs include, among other things, information technology costs relating to the parallel running of two platforms during the integration period (which we expect to be of relatively limited duration) as well as platform enhancements, infrastructure and migration costs; retention costs required to incentivise and retain financial advisers and other key personnel; and costs relating to the hiring of temporary staff. We cannot assure you, however, that transaction, restructuring and integration costs will not exceed CHF 400 million (CHF 312 million after tax), in particular if there are write-downs of asset values following the completion of the Acquisition, or that these measures will be sufficient for us to achieve the operational targets outlined below. In addition, up to USD 125 million (CHF 121 million) of defined restructuring and integration costs will be borne by Bank of America Merrill Lynch. To the extent that these costs exceed this amount, we will be required to bear the excess amount.

## Operational targets

From 2015 onwards (*i.e.*, following completion of the Integration), we envisage targets for the Enlarged Group as follows, assuming the transfer of CHF 72 billion of AuM and assuming that the market performance impact of transferred AuM is similar to the impact on our stand-alone AuM:

- Net new money in the range of four to six per cent. on an annualised basis;
- Adjusted cost to income ratio in the range of 65 per cent. to 70 per cent. (excluding integration and restructuring costs, amortisation of intangible assets, valuation allowances, provisions, and losses); and
- Pre-tax margin (defined as adjusted pre-tax profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets) divided by average AuM for the period) in the range of 30 to 35 basis points.

We also expect our effective tax rate to decline following the Integration as a result of the change in the geographical mix of our business in connection with the Acquisition as well as transaction related tax benefits.

In addition, taking into consideration the convergence of the BIS and Swiss approach to calculating capital ratios in 2013, we have adjusted our BIS total capital ratio target from 16 per cent. to 15 per cent., which would represent a 3 per cent. buffer over the minimum regulatory requirement. Our target BIS tier 1 capital ratio remains unchanged at 12 per cent. Our capital ratios are expected to remain above target levels at all times throughout the Integration, taking into account all currently known future capital impacts. In addition, we have decided not to pursue our previously announced share buyback programme.

Our targets are based on assumptions that may or may not prove to be accurate and we cannot assure you that we will achieve any or all of the preceding operational targets on the timeline we have estimated, or at all. See "Risk Factors — Risks Related to the Acquisition — We face significant management, administrative and financial challenges and may not be able to achieve our key commercial objectives following the Acquisition".

## Management structure

As a consequence of the Acquisition and the greater importance of growth markets resulting therefrom, our management structure will be realigned at the time of Principal Completion. In connection with the realignment, certain members of IWM's management team are expected to join the Julius Baer Group, including Gregory Gatesman, Sonia Dula and Michael Benz, who will serve as Chief Operating Officer, Head Spanish Speaking Latin America and Chairman of the Asia region, respectively. Mr. Gatesman is currently responsible for the oversight of the EMEA, Asia Pacific and Latin America regions of IWM. He also has significant integration experience, having previously served as the executive in charge of the integration of the Merrill Lynch and Bank of America Corporation brokerage businesses. Ms. Dula is currently responsible for IWM's Latin America region and was previously Head of Corporate and Investment Banking for Latin America at Bank of America Merrill Lynch. Mr. Benz joined IWM in 2011, having previously held various senior roles at UBS in investment banking and asset management, including his most recent position of Head of Asia Pacific Products & Services. See "Board of Directors and Management — Realignment of Management Structure".

## Client assets of the Enlarged Group

The following table sets forth the unaudited combined client assets for the Enlarged Group as at 30 June 2012. The AuM presented below for IWM and for the Enlarged Group are based on the transfer of CHF 72 billion of AuM. The actual amount of AuM transferred will depend on which of IWM's clients ultimately agree to join the Julius Baer Group, which will in turn mainly depend on whether such clients' financial advisers join the Julius Baer Group. See "Risk Factors — Risks Related to the Acquisition — We may not be able to achieve our targets and the expected benefits of the Acquisition if the amount of AuM transferred is less than expected". Furthermore, we cannot predict the timing of the transfer of AuM in connection with the Acquisition. While we expect a portion of IWM's AuM to be transferred to us upon Principal Completion, AuM are expected to continue to be transferred during the Integration.

| | **Julius Baer Group** | **IWM** | **Enlarged Group** |
|---|---|---|---|
| | | *(CHF in billions)* | |
| AuM[(1)(2)] | 179 | 72 | 251 |
| Assets under custody | 90 | – | 90 |
| Total client assets | 269 | 72 | 341 |

Notes:

(1) Figures include double counting of private label funds managed by and certain structured notes issued by the Julius Baer Group.

(2) IWM AuM are calculated on the basis of the Julius Baer Group's definition of AuM.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the noon buying rate for Swiss francs, expressed in U.S. dollars per CHF 1.00. The rates set forth below are provided solely for your convenience and are not used by us in the preparation of our consolidated financial statements included elsewhere in this Offering Circular. The "noon buying rate" is the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that Swiss francs could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

| | **Noon Buying Rate** | | | |
|---|---|---|---|---|
| **Year:** | **Period End** | **Average[1]** | **High** | **Low** |
| 2009 | 0.9675 | 0.9239 | 1.0082 | 0.8369 |
| 2010 | 1.0693 | 0.9620 | 1.0751 | 0.8525 |
| 2011 | 1.0647 | 1.1323 | 1.4099 | 1.0222 |
| 2012 (through 5 September) | 1.0467 | 1.472 | 1.0491 | 1.0457 |
| Month: | | | | |
| January 2012 | 1.0868 | 1.0667 | 1.0971 | 1.0422 |
| February 2012 | 1.1056 | 1.0966 | 1.1196 | 1.0752 |
| March 2012 | 1.108 | 1.0955 | 1.1100 | 1.0712 |
| April 2012 | 1.1019 | 1.0951 | 1.1109 | 1.0809 |
| May 2012 | 1.0295 | 1.0646 | 1.1058 | 1.0271 |
| June 2012 | 1.0542 | 1.0448 | 1.0613 | 1.0234 |
| July 2012 | 1.0241 | 1.0235 | 1.0560 | 1.0028 |
| August 2012 | 1.0472 | 1.0327 | 1.0523 | 1.0103 |
| September 2012 (through 5 September) | 1.0467 | 1.0633 | 1.1196 | 1.0028 |

Note:

(1) The average of the buying rate for Swiss francs on the last day of each full month during the relevant year or each business day during the relevant month.

Source: Bloomberg

The following table sets forth, for the periods indicated, information concerning the buying rate for Swiss francs, expressed in euro per CHF 1.00. The rates set forth below are provided solely for your convenience and are not used by us in the preparation of our consolidated financial statements included elsewhere in this Offering Circular. The reference rates are based on the regular daily concertation procedure between central banks within and outside the European System of Central Banks, which normally takes place at 2:15 p.m. ECB time (CET). No representation is made that Swiss francs could have been, or could be, converted into euro at that rate or at any other rate.

| | Buying Rate | | | |
|---|---|---|---|---|
| **Year:** | **Period End** | **Average(1)** | **High** | **Low** |
| 2009 | 0.6743 | 0.6625 | 0.6859 | 0.6474 |
| 2010 | 0.7994 | 0.7257 | 0.8060 | 0.6716 |
| 2011 | 0.8221 | 0.8128 | 0.9903 | 0.7554 |
| 2012 (through 5 September) | 0.8303 | 0.8319 | 0.8328 | 0.8303 |
| Month: | | | | |
| January 2012 | 0.8306 | 0.8262 | 0.8310 | 0.8197 |
| February 2012 | 0.8298 | 0.8284 | 0.8312 | 0.8244 |
| March 2012 | 0.8307 | 0.8291 | 0.8309 | 0.8232 |
| April 2012 | 0.8323 | 0.8319 | 0.8337 | 0.8289 |
| May 2012 | 0.8326 | 0.8325 | 0.8346 | 0.8281 |
| June 2012 | 0.8324 | 0.8326 | 0.8349 | 0.8296 |
| July 2012 | 0.8324 | 0.8326 | 0.8351 | 0.8262 |
| August 2012 | 0.8326 | 0.8326 | 0.8344 | 0.8281 |
| September 2012 (through 5 September) | 0.8303 | 0.8308 | 0.8351 | 0.8197 |

Note:

(1) The average of the buying rate for Swiss francs on the last day of each full month during the relevant year or each business day during the relevant month.

Source: Bloomberg

Except as otherwise noted, this Offering Circular contains translations of U.S. dollar amounts into Swiss francs and of Swiss franc amounts into U.S. dollar amounts at the exchange rate of CHF 0.97 to one U.S. dollar. No representation is made that U.S. dollars could have been, or could be, converted into Swiss francs or that Swiss francs could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

## USE OF PROCEEDS

The gross proceeds from the issue of Tier 1 Bonds are expected to be approximately CHF ■ million. The net proceeds from the issue of Tier 1 Bonds are expected to be approximately CHF ■ million after deduction of commissions, fees, and estimated expenses totalling approximately CHF ■ million. We intend to use the net proceeds from the issue of Tier 1 Bonds to fund a portion of the consideration for the Acquisition.

If Principal Completion does not occur, we intend to use the net proceeds of the issue of Tier 1 Bonds for general corporate purposes (including the funding of share buyback programs of the Company).

# CAPITALISATION OVERVIEW — JULIUS BAER GROUP

*This section presents certain summary information regarding the Company's capital ratios, including certain forward-looking information on the simulated Capitalisation. Defined terms used in this section shall have the meanings assigned to them elsewhere in this Offering Circular.*

The following tables summarise the capitalisation of the Company on a consolidated basis as at 30 June 2012 (BIS – Basel II) and the planned financial measures in 2012.

## Capitalisation overview — Julius Baer Group

| | *(CHF in millions)* |
|---|---|
| As at 30 June 2012 (BIS – Basel II) | |
| Risk Weighted Assets | 12,935 |
| CET1 | 2541 |
| Tier 1 Capital | 2766 |
| Total Capital | 3056 |
| | |
| Tier 1 Capital Ratio | 21.4% |
| Total Capital Ratio | 23.6% |
| | |
| Planned financing measures in 2012 | |
| Capital Increase | approx. 500 |
| Issuance of Tier 1 Bonds | approx. 200 |

## SELECTED FINANCIAL AND OPERATING DATA — JULIUS BAER GROUP

The selected consolidated financial information as at and for the years ended 31 December 2011 and 2010 presented below have been extracted without material adjustment from our audited consolidated financial statements as at and for the year ended 31 December 2011 prepared in accordance with IFRS, included elsewhere in this Offering Circular, which contain the consolidated financial statements for the year ended 31 December 2011 and the related 2010 comparatives.

The selected consolidated financial information as at and for the year ended 31 December 2009 presented below have been extracted without material adjustment from our audited consolidated financial statements as at and for the year ended 31 December 2010 prepared in accordance with IFRS, included elsewhere in this Offering Circular, which contain the consolidated financial statements for the year ended 31 December 2010 and the related 2009 comparatives.

The summary unaudited interim consolidated financial information as at and for the six months ended 30 June 2012 and 2011 presented below have been extracted without material adjustment from our unaudited interim consolidated financial statements information as at and for the six months ended 30 June 2012 and 2011 prepared in accordance with IAS 34, included elsewhere in this Offering Circular.

The following information should be read in conjunction with the information set forth in our audited consolidated financial statements and unaudited interim consolidated financial statements included elsewhere in this Offering Circular, as well as the other financial information included in this Offering Circular.

| | **Six months ended 30 June** | | **Year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| | | | *(CHF in millions)* | | |
| **Income statement data:** | | | | | |
| Interest income | 368.2 | 350.8 | 636.6 | 519.5 | 576.5 |
| Interest expense | 45.5 | 34.5 | 104.0 | 64.1 | 110.0 |
| Net interest income | 322.7 | 316.3 | 532.6 | 455.4 | 466.5 |
| Fee and commission income | 566.5 | 601.0 | 1,137.3 | 1,197.1 | 1,006.2 |
| Commission expense | 95.9 | 104.8 | 195.3 | 216.7 | 187.6 |
| Net fee and commission income | 470.7 | 496.3 | 942.0 | 980.4 | 818.7 |
| Net trading income | 52.2 | 86.0 | 268.7 | 332.3 | 298.5 |
| Other ordinary results | 17.5 | (0.7) | 9.4 | 26.3 | 2.4 |
| Operating income | 863.1 | 897.8 | 1,752.7 | 1,794.4 | 1,586.1 |
| Personnel expenses | 404.3 | 413.3 | 811.9 | 823.7 | 688.7 |
| General expenses | 160.8 | 228.2 | 444.2 | 376.0 | 301.8 |
| Depreciation of property and equipment | 14.9 | 14.5 | 30.3 | 28.4 | 22.8 |
| Amortisation of customer relationships | 45.7 | 45.6 | 92.0 | 91.6 | 76.4 |
| Amortisation of other intangible assets | 16.8 | 15.3 | 55.4 | 40.3 | 21.8 |
| Operating expenses | 642.5 | 717.0 | 1,433.9 | 1,360.1 | 1,111.6 |
| Profit before taxes | 220.6 | 180.9 | 318.8 | 434.3 | 474.6 |
| Income taxes | 44.9 | 33.5 | 60.7 | 81.5 | 85.3 |

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| Net profit | 175.7 | 147.4 | 258.1 | 352.8 | 389.3 |
| Attributable to: | | | | | |
| Shareholders of Julius Baer Group Ltd. | 175.5 | 147.3 | 257.9 | 352.0 | 388.7 |
| Non-controlling interests | 0.2 | 0.1 | 0.2 | 0.8 | 0.6 |

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 |
| | | *(CHF in millions)* | | |
| **Balance sheet data:** | | | | |
| **Assets** | | | | |
| Cash | 5,658.7 | 4,241.5 | 1,121.3 | 2,814.8 |
| Due from banks | 8,946.9 | 10,048.1 | 6,586.6 | 6,598.2 |
| Loans | 18,044.3 | 16,408.4 | 14,570.4 | 10,431.2 |
| Trading assets | 3,771.2 | 4,920.2 | 3,752.0 | 2,735.1 |
| Financial investments available-for-sale | 13,230.5 | 12,168.0 | 13,885.1 | 15,011.5 |
| Total assets | 54,202.8 | 52,928.7 | 46,286.6 | 42,729.0 |
| **Liabilities and Equity** | | | | |
| Due to banks | 4,748.2 | 5,670.2 | 4,251.8 | 3,962.4 |
| Due to customers | 37,736.6 | 34,841.2 | 28,846.7 | 27,284.7 |
| Total liabilities | 49,998.7 | 48,618.4 | 41,802.6 | 38,537.2 |
| Total equity | 4,204.1 | 4,310.2 | 4,484.0 | 4,191.8 |
| Total liabilities and equity | 54,202.8 | 52,928.7 | 46,286.6 | 42,729.0 |

| | As at and for the six months ended 30 June | | As at and for the year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | *(CHF in millions)* | | |
| **Operating data:** | | | | | |
| Assets with discretionary mandate | 25,931 | 24,235 | 24,422 | 22,955 | 22,244 |
| Other AuM | 152,876 | 141,404 | 145,898 | 146,715 | 131,358 |
| Total AuM | 178,807 | 165,639 | 170,320 | 169,670 | 153,602 |
| of which double counts(1) | 2,478 | 2,674 | 2,491 | 2,851 | 2,449 |
| Total client assets | 268,888 | 259,972 | 258,113 | 267,313 | 240,877 |
| Net new money for the period | 5,450 | 4,934 | 10,196 | 8,753 | 5,106 |

Note:

(1) Figures include double counting of private label funds managed by and certain structured notes issued by the Julius Baer Group.

| | As at and for the six months ended 30 June | | As at and for the year ended 31 December | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| **Selected ratios:** | | | | | |
| Return on AuM[(1)] | 97.7 | 104.9 | 104.5 | 105.1 | 110.8 |
| Cost to income ratio[(2)] | 75.7% | 73.1% | 76.8% | 74.4% | 68.5% |
| Return on equity[(3)] | 8.3% | 6.6% | 5.9% | 8.1% | 10.1% |
| BIS tier 1 ratio[(4)] | 21.4% | 21.7% | 21.8% | 23.8% | 24.2% |

Notes:

(1) Unaudited data. Calculated as operating income/average AuM (in bp).

(2) Calculated from audited data (in the annual periods) or unaudited data (in the interim periods) as (personnel expenses (including bonuses) + general expenses + depreciation)/operating income (in per cent.). Excluding valuation allowances, provisions and losses.

(3) Calculated from audited data (in the annual periods) or unaudited data (in the interim periods) as net profit/average total equity (in per cent.).

(4) Audited data for annual periods. Calculated as Tier 1 eligible capital/BIS risk-weighted assets (in per cent.).

# OPERATING AND FINANCIAL REVIEW AND PROSPECTS — JULIUS BAER GROUP

*The following discussion should be read in conjunction with the information set forth in "Selected Financial and Operating Data — Julius Baer Group" and our consolidated financial statements and accompanying notes included elsewhere in this Offering Circular. Our consolidated financial statements as at and for the years ended 31 December 2011, 2010 and 2009 and our consolidated financial information as at and for the six months ended 30 June 2012 and 2011 on which the following discussion is based have been prepared in accordance with IFRS and IAS 34, respectively.*

*The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections entitled "Risk Factors" and "Business — Julius Baer Group" and elsewhere in this Offering Circular.*

## Overview

The Julius Baer Group is the leading Swiss pure private banking group, focusing primarily on the demands of sophisticated private clients, family offices and independent asset managers from around the world. We have the largest international presence of all Swiss private banks with over 40 locations in more than 20 countries, including a comprehensive pan-Swiss network. Switzerland and Asia are our two home markets, with our head office being located in Zurich.

The Shares of Julius Baer Group Ltd. are listed in accordance with the Main Standard of the SIX Swiss Exchange and traded under the ticker symbol "BAER". They form part of the Swiss Market Index (SMI) of the 20 largest and most liquid Swiss stocks. As at 30 June 2012, Julius Baer had a BIS tier 1 ratio of 21.4 per cent. (under Basel 2.5), which was well in excess of the minimum requirements. In addition, as at 30 June 2012, Julius Baer had total client assets of CHF 269 billion, with AuM accounting for CHF 179 billion. The Julius Baer Group employs a staff of over 3,600 worldwide.

## Factors Affecting the Comparability of Our Results of Operations

The comparability of our results of operations for the periods discussed below has been affected by the following factors. These factors may also influence the comparability of our historical results of operations with those in future periods.

### Significant Financial Events in the Periods Under Review

#### *Acquisition of ING Bank*

On 15 January 2010, we completed the acquisition of the private bank ING Bank (Switzerland) Ltd. and its results of operations were accordingly consolidated from that date. We paid a total consideration of CHF 499.1 million in cash. This transaction doubled our presence in Geneva and added booking centre capability in Monaco, and also contributed to an increase in the business volume in Central and Eastern Europe, Russia and other growth markets. The consolidation of ING Bank (Switzerland) Ltd. accounted for CHF 13.5 billion of the CHF 16.1 billion increase in AuM from 31 December 2009 to 31 December 2010.

Following an intensive period of restructuring, the integration of ING Bank (Switzerland) Ltd. was completed ahead of schedule in May 2010. We recorded CHF 15.4 million in restructuring charges in connection with this integration in 2010.

### *German tax settlement*

On 14 April 2011, we announced that we had agreed with the German authorities to make a one-off payment of €50.0 million (CHF 65.2 million, or CHF 51.3 million net of tax) to end the investigations against the Group and unknown employees regarding tax matters in Germany. This payment was recorded in general expenses in our consolidated income statement for the year ended 31 December 2011.

### *Cost reduction plan*

On 14 November 2011, we announced a cost reduction plan in the amount of approximately CHF 40 million in response to the continued challenging general business environment. The cost reduction efforts structurally curb general as well as personnel expenses. We recorded a restructuring provision in the amount of CHF 25.7 million in 2011 in order to account for related expenses in the following years.

## Significant Transaction Subsequent to the Periods Under Review

### *The Acquisition*

As discussed in detail under "The Acquisition", on 13 August 2012, we announced our agreement to acquire IWM.

# Key Factors Affecting Our Results of Operations

## General Factors

Fee and commission income represents a significant source of our operating income. Fee and commission income includes fees associated with portfolio management services, fiduciary commissions, commissions for brokerage and security underwriting and fees for other transaction execution services.

Fees and commissions include both volume-based fees calculated as a percentage of AuM and transaction-based fees such as commissions for brokerage and other transaction execution services. To a lesser degree, we generate net interest income from client lending and the investment of client deposits in interest-bearing and other financial assets. Our trading income includes gains and losses derived from foreign exchange and securities trading, both for clients and on a proprietary basis, and commissions on brokerage transactions from securities underwriting.

Consequently, our results of operations will be influenced from period to period by developments in global capital and financial markets including:

- ***Market risk.*** Fluctuations in market prices have a direct impact on volume-based fees, both in terms of asset value and the inflow and outflow of client funds. Volatility and liquidity in the markets also affect client transactional volumes, which impact the level of transaction-based commissions.
- ***Relative performance of asset classes.*** Changes in the relative returns offered by equities, fixed income and other classes of financial assets can influence client investment decisions, the decisions of discretionary investment managers and the investment allocation process. Because we earn relatively higher margins on certain products such as hedge funds and other alternative investment products, any shift in the mix of products in which AuM are invested can have an impact on profitability levels and margins.
- ***Interest rate movements.*** Changes in interest rates affect the level of net interest income earned in our operations. Movements in overall interest rate levels as well as in the slope of the yield curve can influence net interest income. This is because funding costs (mainly from client deposits) and interest earnings (from loans, mortgages and fixed income investments) do not necessarily correlate in all interest rate environments. Interest rate fluctuations also influence the value of our fixed income

trading portfolio and the amount of income we derive from our trading and sales businesses. Finally, interest rate movements may have an impact on market prices for various classes of financial assets, including our AuM.

- ***Currency fluctuations.*** Approximately 83 per cent. of our AuM as at 30 June 2012 were denominated in currencies other than Swiss francs. Accordingly, any appreciation of the Swiss franc against other currencies such as U.S. dollars, euro or pounds sterling may adversely affect our AuM and operating income.

- ***Net asset/money inflows and outflows.*** Net inflows and outflows are dependent both on factors outside and within our control. Factors outside of our control include a region's gross domestic product growth rate and related wealth creation, as well as changes in regulatory or tax environments. Factors typically within our control include the quality of our geographic network, our presence in high growth markets, the strength of our franchise and our ability to hire and retain high quality relationship managers.

Finally, our operating performance in future periods will depend on the successful integration of IWM. In particular, in light of the relative prospects in the Swiss and other traditional private banking markets, on the one hand, and emerging private banking markets, on the other, our ability to increase operating income will depend on the success with which we penetrate those higher growth markets.

## Trends, Uncertainties, Demands, Commitments or Events Likely to Have a Material Effect on Our Results

We face certain trends, uncertainties, demands, commitments or events which are likely to have a material effect on our results of operations. Our results of operations are influenced by developments in global capital and financial markets, as discussed above under "— Key Factors Affecting Our Results of Operations" and by the demand for wealth management products and services and other factors and trends affecting the wealth management industry as a whole, both globally and in the regional markets in which we operate.

Recently, a number of developments have affected the Swiss private banking market, including:

- ***Global macroeconomic conditions and market volatility.*** Following the global financial crisis in 2008 and 2009, 2010 and the first half of 2011 were characterised by a modest global economic recovery. Developed economies continued to grow modestly but steadily, although unemployment remained high. At the same time, activity in many emerging markets, which emerged from the crisis relatively unscathed, was strong, although coupled with some inflationary pressures and risks of overheating. Central bank interest rates remained low, particularly in developed economies, and fiscal policy in those economies continued to provide additional stimulus globally. As a result of these factors, the markets were generally buoyant.

  Commencing in the second half of 2011, the markets have been affected by on-going concerns surrounding Eurozone sovereign debt and the European banking system, as well as renewed uncertainty about the global economic outlook in general. During the second half of 2011, European leaders introduced a series of measures to alleviate pressure on Greece, including a reduction in the value of Greek sovereign debt held by the private sector and an expansion of the Eurozone bailout fund. Towards the end of 2011, the European Central Bank announced two long-term refinancing operations which contributed to the stabilisation of the markets into the early part of 2012. However, these measures proved to be insufficient in preventing a further escalation of the crisis. Discussions on measures and support for Greece have continued into 2012. Eurozone leaders are also continuing to finalise the terms for a bailout for Spain's ailing banks. Concerns surrounding Eurozone sovereign debt and Spain's banking sector have contributed to significant increases in yields for debt issued by Spain and Italy during the second half of 2011 and 2012. As a result of these developments, volatility in the markets increased and investor confidence levels have been adversely affected. This has in turn generally led to more cautious allocations of funds by clients and lower transaction volumes. We have also generally been more conservative in our asset allocations within our treasury portfolio as a result of market volatility.

- ***Strength of the Swiss franc.*** In the context of the deteriorating economic environment, Switzerland has been seen as a safe haven by investors. The Swiss franc appreciated strongly against most major currencies during the first half of 2011. By early August, it neared parity with the euro, and on 6 September 2011 the Swiss National Bank (*Schweizerische Nationalbank*) ("SNB") set a minimum rate of CHF 1.20 per euro, based on its belief that the overvaluation of the Swiss franc posed a threat to the Swiss economy. Since this announcement, the Swiss franc has fluctuated but remained slightly above the rate of CHF 1.20 per euro. However, the SNB has stated that it believes that the value of the Swiss franc remains high and it is possible that the SNB could introduce additional measures to address this. The strength of the Swiss franc against the U.S. dollar and the euro has had an adverse impact on our AuM. In addition, since the majority of our expenses are denominated in Swiss francs, while our operating income is significantly exposed to foreign currencies, the strength of the Swiss franc has contributed to an increase in our cost to income ratio during the periods under review.

- ***Pressure on Swiss bank client confidentiality.*** Swiss banking legislation protecting client confidentiality has historically been an important factor influencing HNWIs' choice to hold their assets in Switzerland. Pressure on client confidentiality continues to increase worldwide and Germany, the United Kingdom, the United States and other countries as well as a number of institutions such as the OECD have increasingly put pressure on Switzerland to limit the scope of its bank client confidentiality laws, including through requests for client data. For example, U.S. authorities have twice requested the client data of suspected tax evaders.

  Pressure on client confidentiality has also come in the form of investigations and enforcement actions against Swiss banks, including the DOJ investigation. In addition, according to press reports that have been confirmed by the relevant authorities, German authorities have purchased several CDs containing the names of suspected tax evaders in an effort to combat tax evasion by German citizens with accounts at Swiss banks, including Julius Baer. During 2011, the Company reached an agreement with German authorities regarding investigations involving the Group and unknown employees, resulting in the Group making a one-off payment of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax).

  The Swiss government has sought to manage pressures on client confidentiality, including, among other things, by proposing a final withholding tax (*Abgeltungssteuer*) to be applied unilaterally for certain countries by amending certain double taxation treaties and by entering into negotiations with the United States regarding FATCA. Switzerland signed withholding tax agreements with Germany and the United Kingdom in 2011, and in April 2012 it signed a further withholding tax agreement with Austria. Under these agreements, persons resident in Germany, the United Kingdom and Austria will have their existing banking relationships in Switzerland retrospectively taxed either by making a one-time tax payment or by disclosing their accounts. If these agreements are implemented, future investment income and capital gains of German, British and Austrian bank clients in Switzerland (which are not disclosed) will be subject to a final withholding tax (*Abgeltungssteuer*), with Switzerland transferring the proceeds to the German, British and Austrian authorities. The aim of these agreements is to prevent tax evasion while preserving bank secrecy. In June 2012, the Swiss parliament approved the withholding tax agreements and the agreements are expected to be ratified by Germany, the United Kingdom and Austria by end of 2012 or in 2013. In Switzerland, a referendum on the agreements may be held in November 2012. Provided that all necessary approvals are received in Switzerland as well as in Germany, the United Kingdom and Austria, the withholding tax agreements are expected to enter into force in 2013. In Germany, however, the political opposition may prevent the withholding tax agreement from being ratified. In particular, the purchase of further CDs in 2012 by German authorities may affect public perception of the withholding tax agreement and may compromise its ratification. In addition, even if the withholding tax agreements deflect pressures on client confidentiality, the impact of the final withholding tax (*Abgeltungssteuer*) on clients may cause them to transfer their assets elsewhere.

- ***Tax amnesties:*** Italy and Spain have attempted less aggressive paths to encourage repatriation of wealth held offshore in Switzerland. In March 2012, the Spanish government proposed a tax amnesty for the declaration of previously undeclared money. The assets declared will be subject to a 10 per cent. one-off charge. Italy has repatriated wealth over several occasions, with the latest instance occurring in 2009, when approximately €100 billion was repatriated. A 5 per cent. one-off charge was applied to these repatriations.
- ***Increasing regulatory and compliance costs.*** Following the global financial crisis in 2008 and 2009, regulators have increased the regulation of financial institutions. In particular, new rules requiring banks to hold more capital and liquidity, including the Basel III international standards, are putting pressure on financial institutions. Changes in the regulatory capital regime are also expected to affect the competitive landscape of the financial services industry. In particular, financial institutions may focus increasingly on fee-generating businesses that require less capital and funding, with the resulting increased competition in these businesses putting pressure on margins. Compliance costs may also increase as a result of expected regulatory changes.

## Material Changes

Other than as disclosed in this Offering Circular, there has been no material change in the assets and liabilities, financial or trading position and profits and losses of the Group since 30 June 2012, the date as at which the last unaudited interim consolidated financial statements of the Group were prepared.

## Reconciliation of Profit After Tax to Adjusted and Underlying Net Profit

The following table has been provided in order to present a reconciliation of profit after tax as presented in our consolidated financial statements for the years ended 31 December 2011, 2010 and 2009 (prepared in accordance with IFRS) and our unaudited interim consolidated financial statements for the six months ended 30 June 2012 and 2011 (prepared in accordance with IAS 34) to adjusted net profit (*i.e.*, excluding integration and restructuring costs and amortisation of intangible assets) and underlying net profit.

| | **Six months ended 30 June** | | **Year ended 31 December** | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| | | | *(CHF in millions)* | | |
| Profit after tax | 175.7 | 147.4 | 258.1 | 352.8 | 389.3 |
| Amortisation of intangible assets related to the UBS transaction | 37.0 | 37.0 | 74.0 | 74.0 | 74.0 |
| Amortisation of intangible assets related to the ING transaction | 8.2 | 8.2 | 16.3 | 16.3 | - |

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | (CHF in millions) | | | | |
| Integration and restructuring costs related to acquisitions and demerger | 0.7 | 4.8 | 14.5 | 77.9 | 11.7 |
| Restructuring costs 2011 | - | - | 50.0 | - | - |
| Tax impact | (0.2) | (1.1) | (12.4) | (17.1) | (1.8) |
| Total impact | 45.7 | 48.9 | 142.4 | 151.1 | 83.9 |
| Adjusted net profit | 221.4 | 196.3 | 400.5 | 503.9 | 473.2 |
| One-off Germany payment | - | 65.2 | 65.2 | - | - |
| Tax impact | - | (13.9) | (13.9) | - | - |
| Net impact | - | 51.3 | 51.3 | - | - |
| Underlying net profit | 221.4 | 247.6 | 451.8 | 503.9 | 473.2 |

## Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in compliance with IFRS. Generally, the historical cost principle is applied, with the exception of financial assets at fair value through profit or loss recognition, derivative financial instruments and financial investments available-for-sale, as well as certain financial liabilities, which are measured at fair value.

### Due from banks and loans

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

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

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

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

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

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 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.

### 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 income.

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

### Financial assets and liabilities designated at fair value

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

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

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

In addition, the Group reports assets and liabilities related to investment contracts where the beneficiary bears all the related risk and rewards from the investments, as designated at fair value.

### 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. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net trading income.

The Group uses derivative financial instruments for hedging the cash flows (cash flow hedges) or fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their settlement 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 per cent. to 125 per cent.; and
- high probability of the underlying forecast transaction.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and reported as hedging reserve for cash flow hedges. If a hedge of a probable forecast transaction results in the recognition of a financial asset or financial liability, any gain or loss on the hedging instrument that was previously recognised in other components of equity is reclassified into the income statement in the same period in which the financial asset or liability affects income. If the hedged forecast transaction results in direct recognition through the income statement, any related cumulative gain or loss previously recognised in other components of equity is recognised in the income statement in the same period in which the hedged forecast transaction affects income.

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.

Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They 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 recognised 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 initial 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 income.

### 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 plus the recognised amount of any non-controlling interests in the acquiree, 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. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

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

On each balance sheet date, the intangible assets with a finite life 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.

### Share-based payments

The Group maintains various share-based payment plans in the form of share or share option 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.

Share-based payment plans that are settled in own equity instruments (shares or options) result in a corresponding increase in equity and are not re-measured for subsequent changes in the fair value of the underlying equity instruments. Share-based payment plans that are settled by the payment of cash are recognised as a liability and are adjusted through the income statement for changes in fair value of the underlying equity instruments until final settlement.

## Results of Operations

### Six months ended 30 June 2012 compared to six months ended 30 June 2011

The following table sets forth our unaudited consolidated results of operations for the six months ended 30 June 2012 and 2011.

| | Six months ended 30 June | | |
|---|---|---|---|
| | **2012** | **2011** | **Change** |
| | *(CHF in millions)* | | |
| Interest income | 368.2 | 350.8 | 5.0 % |
| Interest expense | 45.5 | 34.5 | 31.9 % |
| Net interest income | 322.7 | 316.3 | 2.0 % |
| Fee and commission income | 566.5 | 601.0 | (5.7) % |
| Commission expense | 95.9 | 104.8 | (8.5) % |
| Net fee and commission income | 470.7 | 496.3 | (5.2) % |
| Net trading income | 52.2 | 86.0 | (39.3) % |
| Other ordinary results | 17.5 | (0.7) | - |
| Operating income | 863.1 | 897.8 | (3.9) % |

| | Six months ended 30 June | | |
|---|---|---|---|
| | 2012 | 2011 | Change |
| Personnel expenses | 404.3 | 413.3 | (2.2) % |
| General expenses | 160.8 | 228.2 | (29.5) % |
| Depreciation of property and equipment | 14.9 | 14.5 | 2.8 % |
| Amortisation of customer relationships | 45.7 | 45.6 | 0.2 % |
| Amortisation of other intangible assets | 16.8 | 15.3 | 9.8 % |
| Operating expenses | 642.5 | 717.0 | (10.4) % |
| Profit before taxes | 220.6 | 180.9 | 21.9 % |
| Income taxes | 44.9 | 33.5 | 34.0 % |
| Net profit | 175.7 | 147.4 | 19.2 % |

***Net interest income***

Net interest income increased by CHF 6.4 million, or 2.0 per cent., to CHF 322.7 million in the six months ended 30 June 2012 from CHF 316.3 million in the six months ended 30 June 2011. This increase was largely due to a CHF 16.6 million increase in interest and dividends on financial investments resulting from an increase in our holdings of debt instruments and additional income resulting from an increase in loan volumes. This increase was partially offset by lower dividend income on trading portfolios and a CHF 11.0 million increase in interest expense, both of which were largely driven by certain valuation adjustments of structured products. Excluding dividend income on trading portfolios, which decreased from CHF 96.8 million in the first half of 2011 to CHF 90.5 million in the first half of 2012, net interest income grew by 5.8 per cent. to CHF 232.2 million in the first half of 2012 compared to CHF 219.5 million in the first half of 2011.

*Interest income*

Interest income on amounts due from banks decreased by CHF 0.1 million, or 0.6 per cent., to CHF 16.2 million in the six months ended 30 June 2012 from CHF 16.3 million in the six months ended 30 June 2011. This decrease was largely due to a reduction in the volume of lending to other banks from CHF 5.1 billion as at 30 June 2011 to CHF 4.7 billion as at 30 June 2012.

Interest income on loans increased by CHF 13.7 million, or 10.6 per cent., to CHF 143.3 million in the six months ended 30 June 2012 from CHF 129.6 million in the six months ended 30 June 2011. The increase was largely due to an increase in loan volumes, from CHF 16.3 billion as at 30 June 2011 to CHF 18.1 billion as at 30 June 2012, including a CHF 708.6 million increase in Lombard loans and a CHF 1,090.6 million increase in mortgages from 30 June 2011 to 30 June 2012.

Interest income on money market instruments decreased by CHF 11.6 million, or 55.8 per cent., to CHF 9.2 million in the six months ended 30 June 2012 from CHF 20.8 million in the six months ended 30 June 2011. The decrease was largely due to a decrease in our holdings of money market instruments from CHF 6.0 billion as at 30 June 2011 to CHF 2.5 billion as at 30 June 2012.

Interest and dividend income on financial investments available-for-sale increased by CHF 16.6 million, or 25.2 per cent., to CHF 82.5 million in the six months ended 30 June 2012 from CHF 65.9 million in the six months ended 30 June 2011. The increase was largely due to an increase in our holdings of debt instruments, including financial institution bonds and corporate bonds, which was partially offset by a decrease in our holdings of money market instruments and government bonds.

Interest and dividend income on trading portfolios decreased by CHF 1.3 million, or 1.1 per cent., to CHF 117.0 million in the six months ended 30 June 2012 from CHF 118.3 million in the six months ended 30 June 2011. The decrease was largely due to a reduction in our holdings of equity instruments. Interest income on trading portfolios also declined as a result of a significant increase in our holdings of physical precious metals stock.

*Interest expense*

Interest expense increased by CHF 11.0 million, or 31.9 per cent., to CHF 45.5 million in the six months ended 30 June 2012 from CHF 34.5 million in the six months ended 30 June 2011. The increase was due to increases in interest expense on amounts due to customers and interest expense on debt issued.

Interest expense on amounts due to banks decreased by CHF 2.7 million, or 55.1 per cent., to CHF 2.2 million in the six months ended 30 June 2012 from CHF 4.9 million in the six months ended 30 June 2011. The decrease was due to a decline in collateralised trading and repo transactions and lower interest rates.

Interest expense on amounts due to customers increased by CHF 8.0 million, or 31.3 per cent., to CHF 33.6 million in the six months ended 30 June 2012 from CHF 25.6 million in the six months ended 30 June 2011. The increase was largely due to an increase in client deposits from CHF 30.0 billion as at 30 June 2011 to CHF 37.7 billion as at 30 June 2012. The 25.7 per cent. increase in client deposits was partly due to a shift from money market investments to deposits, which management believes may be caused by heightened client cautiousness due to uncertain macro-economic conditions.

Interest expense on debt issued increased by CHF 5.5 million, or 134.1 per cent., to CHF 9.6 million in the six months ended 30 June 2012 from CHF 4.1 million in the six months ended 30 June 2011. The increase was largely due to our issuance of a CHF 250 million lower tier 2 bond in 2011.

***Net fee and commission income***

Net fee and commission income decreased by CHF 25.6 million, or 5.2 per cent., to CHF 470.7 million in the six months ended 30 June 2012 from CHF 496.3 million in the six months ended 30 June 2011. The decrease reflected the reduced level of client activity in securities transactions, which resulted in lower securities transaction-based income. The decrease in securities transaction-based income was accompanied by lower fee and commission income from asset management, which occurred despite an increase in average AuM.

AuM increased by 7.9 per cent. to CHF 178.8 billion as at 30 June 2012 compared to CHF 165.6 billion as at 30 June 2011. The increase is in total CHF 13.2 billion, which was mainly driven by a change in net new money of CHF 5.5 billion, positive market performance impact of CHF 2.5 billion and change in positive currency impact of CHF 0.5 billion. All regions contributed positively to net new money, although the majority of inflows stemmed from our growth markets, including Asia, Russia, Eastern Europe, the Middle East and Latin America and our local businesses in Germany. Our European offshore and local Swiss businesses also generated modestly positive contributions. AuM fluctuated significantly throughout 2011 as a result of market and currency volatility. Average AuM increased by 3.1 per cent. to CHF 176.6 billion in the six months ended 30 June 2012 compared to CHF 171.2 billion in the six months ended 30 June 2011. Assets under custody decreased by 4.6 per cent. to CHF 90.0 billion as at 30 June 2012 from CHF 94.3 billion as at 30 June 2011.

*Fee and commission income*

Total fee and commission income from asset management decreased by CHF 8.8 million, or 2.3 per cent., to CHF 366.5 million in the six months ended 30 June 2012 from CHF 375.3 million in the six months ended 30

June 2011. The decrease was due to the overall lower volume of securities transactions, which resulted in lower investment fund fees, fiduciary commissions and portfolio and other management fees.

Income from brokerage and securities underwriting decreased by CHF 24.8 million, or 12.4 per cent., to CHF 174.5 million in the six months ended 30 June 2012 from CHF 199.3 million in the six months ended 30 June 2011. The decrease was largely due to the overall lower volume of securities transactions, which resulted in lower securities transaction-based income.

Commission income on lending activities increased by CHF 0.3 million, or 11.5 per cent., to CHF 2.9 million in the six months ended 30 June 2012 from CHF 2.6 million in the six months ended 30 June 2011. The increase was largely due to the higher volume of lending.

Commission income on other services decreased by CHF 1.3 million, or 5.4 per cent., to CHF 22.6 million in the six months ended 30 June 2012 from CHF 23.9 million in the six months ended 30 June 2011. The decrease was largely due to lower trust service fees.

*Commission expense*

Commission expense decreased by CHF 8.9 million, or 8.5 per cent., to CHF 95.9 million in the six months ended 30 June 2012 from CHF 104.8 million in the six months ended 30 June 2011. The decrease was largely due to the overall lower volume of securities transactions.

### *Net trading income*

Net trading income decreased by CHF 33.8 million, or 39.3 per cent., to CHF 52.2 million in the six months ended 30 June 2012 from CHF 86.0 million in the six months ended 30 June 2011. The decrease was primarily due to lower client-related foreign exchange trading income following reduced volatility in the foreign exchange markets.

### *Other ordinary results*

Other ordinary results increased to CHF 17.5 million in the six months ended 30 June 2012 from negative CHF 0.7 million in the six months ended 30 June 2011, with no material non-recurring items in either period. The increase was largely due to a CHF 12.4 million loss in the six months ended 30 June 2011 and a CHF 6.7 million gain in the six months ended 30 June 2012, both arising from a sale of certain available-for-sale financial instruments.

### *Operating income*

Operating income decreased by CHF 34.7 million, or 3.9 per cent., to CHF 863.1 million in the six months ended 30 June 2012 from CHF 897.8 million in the six months ended 30 June 2011. As discussed above, this decrease was primarily due to lower commission income and lower trading income as a result of decreased securities transaction volumes and reduced volatility in the foreign exchange markets. The decrease was partially offset by increased interest and dividend income from financial investments and increased net interest income from increased loan volumes.

### *Personnel expenses*

Personnel expenses decreased by CHF 9.0 million, or 2.2 per cent., to CHF 404.3 million in the six months ended 30 June 2012 from CHF 413.3 million in the six months ended 30 June 2011. The decrease was largely due to lower salaries and performance-related bonus payments, and a slight decrease in the total number of employees (3,649 as at 30 June 2012 compared to 3,684 as at 30 June 2011). In addition, although the number of relationship managers increased, their salaries and bonuses were lower as a result of reduced incentive based payments.

### *General expenses*

General expenses decreased by CHF 67.4 million, or 29.5 per cent., to CHF 160.8 million in the six months ended 30 June 2012 from CHF 228.2 million in the six months ended 30 June 2011. The decrease was largely due to an agreement between the Company and German authorities which led to a one-off payment of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax) on 14 April 2011. The conclusion of this agreement ended investigations against the Group and unknown employees regarding tax matters in Germany. Excluding the impact of this one-off payment, general expenses would have decreased by CHF 2.2 million, or 1.4 per cent. General expenses in the first half of 2012 also included CHF 14.1 million of expenses related to advisory fees in connection with negotiations with U.S. tax authorities.

### *Depreciation of property and equipment*

Depreciation of property and equipment increased by CHF 0.4 million, or 2.8 per cent., to CHF 14.9 million in the six months ended 30 June 2012 from CHF 14.5 million in the six months ended 30 June 2011.

### *Amortisation of customer relationships*

Amortisation of customer relationships remained relatively stable, at CHF 45.7 million and CHF 45.6 million in the six months ended 30 June 2012 and 30 June 2011, respectively.

### *Amortisation of other intangible assets*

Amortisation of other intangible assets increased by CHF 1.5 million, or 9.8 per cent., to CHF 16.8 million in the six months ended 30 June 2012 from CHF 15.3 million in the six months ended 30 June 2011. The increase was largely due to higher amortisation as a result of software investments.

### *Operating expenses*

Operating expenses decreased by CHF 74.5 million, or 10.4 per cent., to CHF 642.5 million in the six months ended 30 June 2012 from CHF 717.0 million in the six months ended 30 June 2011. This decrease was largely due to the one-off payment to the German authorities in the amount of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax) during the first six months of 2011. Excluding the impact of this one-off payment, operating expenses would have decreased by 1.4 per cent.

### *Profit before taxes*

Profit before taxes increased by CHF 39.7 million, or 21.9 per cent., to CHF 220.6 million in the six months ended 30 June 2012 from CHF 180.9 million in the six months ended 30 June 2011. Excluding the impact of the €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax) one-off payment to the German authorities during the first six months of 2011, profit before tax would have decreased by 10.4 per cent.

### *Income taxes*

Income taxes increased by CHF 11.4 million, or 34.0 per cent., to CHF 44.9 million in the six months ended 30 June 2012 from CHF 33.5 million in the six months ended 30 June 2011. Our effective tax rate was 20.4 per cent. in the first half of 2012, compared to 18.5 per cent. in the first half of 2011. This increase was principally due to a substantial increase in Bank Julius Baer & Co. Ltd.'s profit over that period (from CHF 167.7 million in the six months ended 30 June 2011 to CHF 206.8 million in the six months ended 30 June 2012).

### *Net profit*

As a result of the foregoing factors, net profit increased by CHF 28.3 million, or 19.2 per cent., to CHF 175.7 million in the six months ended 30 June 2012 from CHF 147.4 million in the six months ended 30 June 2011.

**Year ended 31 December 2011 compared to year ended 31 December 2010**

The following table sets forth our consolidated results of operations for the years ended 31 December 2011 and 2010:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2011** | **2010** | **Change** |
| | *(CHF in millions)* | | |
| Interest income | 636.6 | 519.5 | 22.6 % |
| Interest expense | 104.0 | 64.1 | 62.3 % |
| Net interest income | 532.6 | 455.4 | 17.0 % |
| Fee and commission income | 1,137.3 | 1,197.1 | (5.0) % |
| Commission expense | 195.3 | 216.7 | (9.9) % |
| Net fee and commission income | 942.0 | 980.4 | (3.9) % |
| Net trading income | 268.7 | 332.3 | (19.2) % |
| Other ordinary results | 9.4 | 26.3 | - |
| Operating income | 1,752.7 | 1,794.4 | (2.3) % |
| Personnel expenses | 811.9 | 823.7 | (1.4) % |
| General expenses | 444.2 | 376.0 | 18.1 % |
| Depreciation of property and equipment | 30.3 | 28.4 | 6.7 % |
| Amortisation of customer relationships | 92.0 | 91.6 | 0.4 % |
| Amortisation of other intangible assets | 55.4 | 40.3 | 37.4 % |
| Operating expenses | 1,433.9 | 1,360.1 | 5.4 % |
| Profit before taxes | 318.8 | 434.3 | (26.6) % |
| Income taxes | 60.7 | 81.5 | (25.6) % |
| Net profit | 258.1 | 352.8 | (26.8) % |

***Net interest income***

Net interest income increased by CHF 77.2 million, or 17.0 per cent., to CHF 532.6 million in the year ended 31 December 2011 from CHF 455.4 million in the year ended 31 December 2010. This increase was partly due to higher dividend income on trading portfolios. Excluding dividend income on trading portfolios, which increased from CHF 66.3 million in 2010 to CHF 101.3 million in 2011, net interest income grew by 10.9 per cent. to CHF 431.3 million in 2011 compared to CHF 389.1 million in 2010. The increase not attributable to the increase in dividend income on trading portfolios was mainly due to an increase in loan volumes.

*Interest income*

Interest income on amounts due from banks increased by CHF 8.1 million, or 26.1 per cent., to CHF 39.1 million in the year ended 31 December 2011 from CHF 31.0 million in the year ended 31 December 2010. The increase was due to the increase in the volume of lending to other banks, from CHF 6.6 billion as at 31 December 2010 to CHF 10.0 billion as at 31 December 2011.

Interest income on loans increased by CHF 36.7 million, or 15.3 per cent., to CHF 276.0 million in the year ended 31 December 2011 from CHF 239.3 million in the year ended 31 December 2010. The increase was due to an increase in loan volumes, from CHF 14.6 billion as at 31 December 2010 to CHF 16.4 billion as at 31 December 2011, including an increase both in Lombard loans and mortgages.

Interest income on money market instruments decreased by CHF 4.2 million, or 9.8 per cent., to CHF 38.7 million in the year ended 31 December 2011 from CHF 42.9 million in the year ended 31 December 2010. The decrease was due to a decrease in our holdings of money market instruments, from CHF 6.0 billion as at 31 December 2010 to CHF 3.4 billion as at 31 December 2011.

Interest and dividend income on financial investments available-for-sale increased by CHF 2.4 million, or 1.8 per cent., to CHF 136.4 million in the year ended 31 December 2011 from CHF 134.0 million in the year ended 31 December 2010. The increase was due to a slight increase in our holdings of bonds of corporates and financial institutions, which was partially offset by a decrease in our holdings of government bonds.

Interest and dividend income on trading portfolios increased by CHF 74.1 million, or 102.5 per cent., to CHF 146.4 million in the year ended 31 December 2011 from CHF 72.3 million in the year ended 31 December 2010. Dividend income on trading portfolios increased by 52.7 per cent. as we increased our holdings of equity instruments. Interest income on trading portfolios also increased as a result of a significant increase in our holdings of debt instruments.

*Interest expense*

Interest expense on amounts due to banks decreased by CHF 2.8 million, or 23.9 per cent., to CHF 8.8 million in the year ended 31 December 2011 from CHF 11.6 million in the year ended 31 December 2010. The decrease was due to an overall decline in interest rates.

Interest expense on amounts due to customers increased by CHF 42.5 million, or 95.8 per cent., to CHF 86.8 million in the year ended 31 December 2011 from CHF 44.3 million in the year ended 31 December 2010. The increase was due to a CHF 6.0 billion increase in client deposits, which was partly the result of a shift from money market investments to deposits, which management believes may be due to heightened client cautiousness in the context of uncertain economic conditions.

Interest expense on debt issued remained relatively stable, increasing only slightly to CHF 8.4 million in 2011 compared to CHF 8.2 million in 2010.

***Net fee and commission income***

Net fee and commission income decreased by CHF 38.4 million, or 3.9 per cent., to CHF 942.0 million in the year ended 31 December 2011 from CHF 980.4 million in the year ended 31 December 2010. The decrease was due to overall lower transaction based income.

AuM remained relatively stable, increasing slightly to CHF 170.3 billion as at 31 December 2011 compared to CHF 169.7 billion as at 31 December 2010. Net new money of CHF 10.2 billion was offset by a negative market performance impact of CHF 8.1 billion and a negative currency impact of CHF 1.4 billion. All regions contributed positively to net new money, although the majority of inflows stemmed from our growth markets, including Asia, Russia, Eastern Europe, the Middle East and Latin America. Our local businesses in Switzerland and Germany also contributed significant inflows. AuM fluctuated significantly during the year as a result of market and currency volatility experienced in 2011. Consequently, average AuM (calculated on the basis of monthly levels of AuM) decreased by 1.8 per cent. to CHF 167.7 billion in 2011 compared to CHF 170.7 billion in 2010. Assets under custody decreased by 10.0 per cent. to CHF 87.8 billion as at 31 December 2011 from CHF 97.6 billion as at 31 December 2010.

*Fee and commission income*

Total fee and commission income from asset management remained stable at CHF 732.2 million for the year ended 31 December 2011 compared to CHF 732.4 million for the year ended 31 December 2010.

Income from brokerage and securities underwriting decreased by CHF 58.9 million, or 14.3 per cent., to CHF 354.0 million in the year ended 31 December 2011 from CHF 412.9 million in the year ended 31 December 2010. The decrease was due to the overall lower volume of transactions.

Commission from income on lending activities remained relatively stable, decreasing only slightly to CHF 4.6 million for the year ended 31 December 2011 compared to CHF 4.8 million for the year ended 31 December 2010.

Commission income on other services decreased by CHF 0.7 million, or 1.4 per cent., to CHF 46.4 million in the year ended 31 December 2011 from CHF 47.1 million in the year ended 31 December 2010.

*Commission expense*

Commission expense decreased by CHF 21.4 million, or 9.9 per cent., to CHF 195.3 million in the year ended 31 December 2011 from CHF 216.7 million in the year ended 31 December 2010. The decrease was largely due to the overall lower volume of transactions.

***Net trading income***

Net trading income decreased by CHF 63.6 million, or 19.2 per cent., to CHF 268.7 million in the year ended 31 December 2011 from CHF 332.3 million in the year ended 31 December 2010. The decrease was due to an increase in losses on trading in equity instruments, which was partially offset by slight increases in trading income from debt instruments and foreign exchange instruments.

***Other ordinary results***

Other ordinary results decreased by CHF 16.9 million, or 64.3 per cent., to CHF 9.4 million in the year ended 31 December 2011 from CHF 26.3 million in the year ended 31 December 2010. This decrease was largely due to losses from the disposal of financial investments available-for-sale.

***Operating income***

Operating income decreased by CHF 41.7 million, or 2.3 per cent. to CHF 1,752.7 million in the year ended 31 December 2011 from CHF 1,794.4 million in the year ended 31 December 2010. As discussed above, this decrease was primarily due to lower fee and commission income on the back of lower average AuM and lower trading income, which was offset by higher net interest income as a result of higher dividends on trading portfolios and higher loan volumes.

***Personnel expenses***

Personnel expenses decreased by CHF 11.8 million, or 1.4 per cent., to CHF 811.9 million in the year ended 31 December 2011 from CHF 823.7 million in the year ended 31 December 2010. This decrease was largely due to a decrease in performance related payment accruals and pension fund expenses, which was partially offset by an increase in the total number of employees. The number of relationship managers increased from 743 to 795 in 2011.

***General expenses***

General expenses increased by CHF 68.2 million, or 18.1 per cent. to CHF 444.2 million in the year ended 31 December 2011 from CHF 376.0 million in the year ended 31 December 2010. This increase was largely due to an agreement between the Company and German authorities which led to a one-off payment of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax) on 14 April 2011. The conclusion of this agreement ended the investigations against the Group and unknown employees regarding tax matters in Germany. Excluding the impact of this payment, general expenses would have increased by 0.8 per cent.

### *Depreciation of property and equipment*

Depreciation of property and equipment increased by CHF 1.9 million, or 6.7 per cent., to CHF 30.3 million in the year ended 31 December 2011 from CHF 28.4 million in the year ended 31 December 2010. This increase was largely due to the addition of property and equipment as a result of premises renovations, as well as increased capital expenditure on computer hardware and leasehold improvements.

### *Amortisation of customer relationships*

Amortisation of customer relationships increased by CHF 0.4 million, or 0.4 per cent., to CHF 92.0 million in the year ended 31 December 2011 from CHF 91.6 million in the year ended 31 December 2010.

### *Amortisation of other intangible assets*

Amortisation of other intangible assets increased by CHF 15.1 million, or 37.4 per cent, to CHF 55.4 million in the year ended 31 December 2011 from CHF 40.3 million in the year ended 31 December 2010. This increase was largely due to higher amortisation related to investments in software.

### *Operating expenses*

Operating expenses increased by CHF 73.8 million, or 5.4 per cent., to CHF 1,433.9 million in the year ended 31 December 2011 from CHF 1,360.1 million in the year ended 31 December 2010. This increase was largely due to the one-off payment to the German authorities in the amount of €50.0 million (CHF 65.2 million or CHF 51.3 million net of tax) during the first six months of 2011. Excluding the impact of this payment, operating expenses would have increased by 0.6 per cent.

A majority of our expenses are denominated in Swiss francs, while our operating income has strong foreign currency exposure, especially to the euro and the U.S. dollar. Although the value of the euro and the U.S. dollar against the Swiss franc at the end of 2011 was not significantly different from the value at the end of 2010, average exchange rates still reflected the significant strengthening of the Swiss franc, with the euro weakening by approximately 10 per cent. on that basis compared to 2010, and the U.S. dollar by approximately 15 per cent. This is the primary reason that our cost to income ratio (excluding valuation allowances, provisions and losses) increased from 74.4 per cent. to 76.8 per cent.

### *Profit before taxes*

Profit before taxes decreased by CHF 115.5 million, or 26.6 per cent., to CHF 318.8 million in the year ended 31 December 2011 from CHF 434.3 million in the year ended 31 December 2010. Excluding the impact of the one-off payment to German authorities, profit before tax would have decreased by 11.6 per cent.

### *Income taxes*

Income taxes decreased by CHF 20.8 million, or 25.6 per cent., to CHF 60.7 million in the year ended 31 December 2011 from CHF 81.5 million in the year ended 31 December 2010. The Group’s effective tax rate was 19.0 per cent. in 2011 compared to 18.8 per cent. in 2010. The increase in the effective tax rate was mainly due to an increase in non-deductible expenses and non-capitalised loss carry-forwards.

### *Net profit*

As a result of the foregoing factors, net profit decreased by CHF 94.7 million, or 26.8 per cent., to CHF 258.1 million in the year ended 31 December 2011 from CHF 352.8 million in the year ended 31 December 2010. Excluding the impact of the one-off €50.0 million payment to the German authorities, profit before tax would have decreased by 12.3 per cent.

**Year ended 31 December 2010 compared to year ended 31 December 2009**

The following table sets forth our consolidated results of operations for the years ended 31 December 2010 and 2009:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2010** | **2009** | **Change** |
| | *(CHF in millions)* | | |
| Interest income | 519.5 | 576.5 | (9.9)% |
| Interest expense | 64.1 | 110.0 | (41.7)% |
| Net interest income | 455.4 | 466.5 | (2.4)% |
| Fee and commission income | 1,197.1 | 1,006.2 | (19.0)% |
| Commission expense | 216.7 | 187.6 | 15.6% |
| Net fee and commission income | 980.4 | 818.7 | 19.7% |
| Net trading income | 332.3 | 298.5 | 11.3% |
| Other ordinary results | 26.3 | 2.4 | -% |
| Operating income | 1,794.4 | 1,586.1 | 13.1% |
| Personnel expenses | 823.7 | 688.7 | 19.6% |
| General expenses | 376.0 | 301.8 | 24.9% |
| Depreciation of property and equipment | 28.4 | 22.8 | 24.6% |
| Amortisation of customer relationships | 91.6 | 76.4 | 19.9% |
| Amortisation of other intangible assets | 40.3 | 21.8 | 84.8% |
| Operating expenses | 1,360.1 | 1,111.6 | 22.4% |
| Profit before taxes | 434.3 | 474.6 | (8.5)% |
| Income taxes | 81.5 | 85.3 | (4.4)% |
| Net profit | 352.8 | 389.3 | (9.4)% |

***Net interest income***

Net interest income decreased by CHF 11.1 million, or 2.4 per cent., to CHF 455.4 million in the year ended 31 December 2010 from CHF 466.5 million in the year ended 31 December 2009. The more conservative asset allocation in our treasury portfolio offset the increase in average deposit levels and average lending to private clients as well as a CHF 53.7 million increase in dividend income from trading portfolios.

*Interest income*

Interest income on amounts due from banks decreased by CHF 12.0 million, or 27.9 per cent., to CHF 31.0 million in the year ended 31 December 2010 from CHF 43.0 million in the year ended 31 December 2009. The decrease was due to the overall decline in interest rates, partially offset by the consolidation of ING Bank (Switzerland) Ltd.

Interest income on loans increased by CHF 16.2 million, or 7.3 per cent., to CHF 239.3 million in the year ended 31 December 2010 from CHF 223.1 million in the year ended 31 December 2009. The increase was due to an increase in loan volumes, from CHF 10.4 billion as at 31 December 2009 to CHF 14.6 billion as at

31 December 2010, which was due both to the consolidation of ING Bank (Switzerland) Ltd. as well as the expansion of lending activities, including both Lombard loans and mortgages.

Interest income on money market instruments decreased by CHF 112.2 million, or 72.4 per cent., to CHF 42.9 million in the year ended 31 December 2010 from CHF 155.1 million in the year ended 31 December 2009. The decrease was due to a decrease in our holdings of money market instruments, from CHF 9.1 billion as at 31 December 2009 to CHF 6.0 billion as at 31 December 2010. This was in turn generally due to more conservative asset allocations amid economic uncertainty stemming from the Eurozone sovereign debt crisis.

Interest and dividend income on financial investments available-for-sale decreased by CHF 6.8 million, or 4.8 per cent., to CHF 134.0 million in the year ended 31 December 2010 from CHF 140.8 million in the year ended 31 December 2009. Although our holdings of debt instruments increased from CHF 5.8 billion as at 31 December 2009 to CHF 7.7 billion as at 31 December 2010, our interest income decreased as a result of more conservative asset allocations. We increased our holdings of government bonds, while decreasing slightly our holdings of corporate bonds.

Interest and dividend income on trading portfolios increased by CHF 57.7 million, or 395.7 per cent., to CHF 72.3 million in the year ended 31 December 2010 from CHF 14.6 million in the year ended 31 December 2009. Dividend income on trading portfolios increased by 424.5 per cent. as we increased our holdings of equity instruments.

*Interest expense*

Interest expense on amounts due to banks increased by CHF 5.2 million, or 80.4 per cent., to CHF 11.6 million in the year ended 31 December 2010 from CHF 6.4 million in the year ended 31 December 2009. The increase was primarily due to the consolidation of ING Bank (Switzerland) Ltd.

Interest expense on amounts due to customers decreased by CHF 51.1 million, or 53.5 per cent., to CHF 44.3 million in the year ended 31 December 2010 from CHF 95.4 million in the year ended 31 December 2009. The decrease was due to the overall decline in interest rates, partially offset by the consolidation of ING Bank (Switzerland) Ltd.

Interest expense on debt issued remained stable at CHF 8.2 million in each of 2010 and 2009.

### *Net fee and commission income*

Net fee and commission income increased by CHF 161.7 million, or 19.7 per cent., to CHF 980.4 million in the year ended 31 December 2010 from CHF 818.7 million in the year ended 31 December 2009. The increase was largely due to an increase in AuM to CHF 169.7 billion in 2010 compared to CHF 153.6 billion in 2009. The increase in AuM reflected the consolidation of ING Bank (Switzerland) Ltd. from January 2010, net new money of CHF 8.8 billion and a positive market performance impact of CHF 8.1 billion, which were offset by a negative currency impact of CHF 14.3 billion. The negative currency impact resulted from the decline in the value of the euro and the U.S. dollar relative to the Swiss franc. Net new money was attributable to strong inflows in growth markets, particularly Asia, Russia, Central and Eastern Europe and Latin America, as well as from our domestic German business. Average AuM increased by 19.2 per cent. to CHF 170.7 billion in 2010 compared to CHF 143.2 billion in 2009. Assets under custody increased by 11.8 per cent. to 97.6 billion as at 31 December 2010 compared to CHF 87.3 billion as at 31 December 2009. The increase was largely due to net new custody money of CHF 7.3 billion.

*Fee and commission income*

Total fee and commission income from asset management increased by CHF 108.2 million, or 17.3 per cent., to CHF 732.4 million in the year ended 31 December 2010 compared to CHF 624.2 million in the year ended 31 December 2009. The increase was due to the increases in AuM and assets under custody described above.

Income from brokerage and securities underwriting increased by CHF 71.0 million, or 20.8 per cent., to CHF 412.9 million in the year ended 31 December 2010 from CHF 341.9 million in the year ended 31 December 2009. The increase was commensurate with the increase in average AuM.

Commission from income on lending activities increased by CHF 1.4 million, or 40.0 per cent., to CHF 4.8 million in the year ended 31 December 2010 compared to CHF 3.4 million for the year ended 31 December 2009. The increase was due to the consolidation of ING Bank (Switzerland) Ltd. and an increase in the volume of loans, including both Lombard loans and mortgages.

Commission income on other services increased by CHF 10.3 million, or 27.9 per cent., to CHF 47.1 million in the year ended 31 December 2010 from CHF 36.8 million in the year ended 31 December 2009. The increase was due to changes in the pricing model, which resulted in separate charges for certain services previously included in fee income.

*Commission expense*

Commission expense increased by CHF 29.1 million, or 15.6 per cent., to CHF 216.7 million in the year ended 31 December 2010 from CHF 187.6 million in the year ended 31 December 2009. The increase was commensurate with the increase in fee and commission income.

***Net trading income***

Net trading income increased by CHF 33.8 million, or 11.3 per cent., to CHF 332.3 million in the year ended 31 December 2010 from CHF 298.5 million in the year ended 31 December 2009. The increase was due to increased volatility in the foreign exchange markets.

***Other ordinary results***

Other ordinary results increased by CHF 23.9 million to CHF 26.3 million in the year ended 31 December 2010 from CHF 2.4 million in the year ended 31 December 2009. Other ordinary results in 2010 included licence fees received from GAM Holding Ltd. for the use of the Julius Baer brand.

***Operating income***

Operating income increased by CHF 208.3 million, or 13.1 per cent. to CHF 1,794.4 million in the year ended 31 December 2010 from CHF 1,586.1 million in the year ended 31 December 2009. As discussed above, this increase was primarily due to higher fee and commission income as a result of higher average AuM.

***Personnel expenses***

Personnel expenses increased by CHF 135.0 million, or 19.6 per cent., to CHF 823.7 million in the year ended 31 December 2010 from CHF 688.7 million in the year ended 31 December 2009. This increase was largely due to the consolidation of ING Bank (Switzerland) Ltd., which contributed to a 16.0 per cent. increase in the number of employees to 3,578 as at 31 December 2010.

***General expenses***

General expenses increased by CHF 74.2 million to CHF 376.0 million in the year ended 31 December 2010 from CHF 301.8 million in the year ended 31 December 2009. This increase was largely due to the consolidation of ING Bank (Switzerland) Ltd. from January 2010.

***Depreciation of property and equipment***

Depreciation of property and equipment increased by CHF 5.6 million, or 24.9 per cent., to CHF 28.4 million in the year ended 31 December 2010 from CHF 22.8 million in the year ended 31 December 2009. The increase was largely due to the consolidation of ING Bank (Switzerland) Ltd.

### *Amortisation of customer relationships*

Amortisation of customer relationships increased by CHF 15.2 million, or 19.9 per cent, to CHF 91.6 million in the year ended 31 December 2010 from CHF 76.4 million in the year ended 31 December 2009. This increase was largely due to the consolidation of ING Bank (Switzerland) Ltd.

### *Amortisation of other intangible assets*

Amortisation of other intangible assets increased by CHF 18.5 million, or 84.8 per cent, to CHF 40.3 million in the year ended 31 December 2010 from CHF 21.8 million in the year ended 31 December 2009. This increase was largely due to higher amortisation related to investments in software.

### *Operating expenses*

Operating expenses increased by CHF 248.5 million, or 22.4 per cent., to CHF 1,360.1 million in the year ended 31 December 2010 from CHF 1,111.6 million in the year ended 31 December 2009. This increase was largely due to the consolidation of ING Bank (Switzerland) Ltd. from January 2010.

As a result of the strong Swiss franc as well as a decline in our gross margin, our cost to income ratio (excluding valuation allowances, provisions and losses) increased to 74.4 per cent. from 68.5 per cent.

### *Profit before taxes*

Principally as a result of the consolidation of ING Bank (Switzerland) Ltd. from January 2010, which led to a greater increase in operating expenses as compared to operating income, profit before taxes decreased by CHF 40.3 million, or 8.5 per cent., to CHF 434.3 million in the year ended 31 December 2010 from CHF 474.6 million in the year ended 31 December 2009.

### *Income taxes*

Income taxes decreased by CHF 3.8 million, or 4.4 per cent., to CHF 81.5 million in the year ended 31 December 2010 from CHF 85.3 million in the year ended 31 December 2009. The Group’s effective tax rate was 18.8 per cent. in 2010 compared to 18.0 per cent. in 2009. The increase was mainly due to the decreased profit contribution from jurisdictions with lower tax rates.

### *Net profit*

As a result of the foregoing factors, net profit decreased by CHF 36.5 million, or 9.4 per cent., to CHF 352.8 million in the year ended 31 December 2010 from CHF 389.3 million in the year ended 31 December 2009.

## Working Capital

In the Company’s opinion, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this Offering Circular.

## Liquidity and Capital Resources

### *Cash flows*

The following table sets forth our cash flows for the six months ended 30 June 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009:

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | (CHF in millions) | | |
| Net profit | 175.7 | 147.4 | 258.1 | 352.8 | 389.3 |
| **Adjustments to reconcile net profit to cash flow from/(used in) operating activities:** | | | | | |
| **Non-cash items included in net profit and other adjustments:** | | | | | |
| Depreciation of property and equipment | 14.9 | 14.5 | 30.3 | 28.4 | 22.8 |
| Amortisation of intangible assets | 62.5 | 60.9 | 147.4 | 131.9 | 98.2 |
| Allowance for credit losses | (9.6) | 3.4 | 29.6 | 10.5 | 6.1 |
| Income from investments in associates | (1.8) | - | (1.1) | - | - |
| Deferred tax expense/(benefit) | (6.3) | (6.8) | (1.6) | (5.0) | (13.2) |
| Net loss/(gain) from investing activities | 15.1 | 21.9 | 41.1 | 21.9 | 8.2 |
| Other non-cash income and expenses | 15.4 | 13.5 | 22.9 | 20.4 | 9.7 |
| **Net increase/decrease in operating assets and liabilities:** | | | | | |
| Net due from/to banks | (783.9) | 888.3 | 1,466.5 | 591.0 | 1,327.5 |
| Trading portfolios and derivative financial instruments | 839.1 | 530.6 | (1,217.3) | (797.6) | (1,328.4) |
| Loans/due to customers | 1,268.2 | (530.1) | 4,122.9 | (3,454.8) | 1,167.1 |
| Accrued income, prepaid expenses and other assets | (64.9) | (155.2) | 143.0 | (161.4) | 67.5 |
| Accrued expenses, deferred income, other liabilities and provisions | (36.9) | (181.7) | (58.9) | (18.9) | (243.2) |
| Adjustment for income tax expenses | 51.2 | 40.3 | 62.3 | 86.5 | 98.5 |
| Income taxes paid | (60.4) | (42.7) | (87.5) | (61.0) | (100.0) |
| Cash flow from operating activities after taxes | 1,478.4 | 799.4 | 4,957.7 | (3,255.3) | 1,510.0 |
| Purchase of property and equipment and intangible assets | (36.5) | (43.0) | (88.4) | (97.0) | (66.8) |
| Disposal of property and equipment and intangible assets | - | 7.5 | 7.6 | 17.2 | 0.3 |
| Net (investment in)/divestment of financial investments available-for-sale | (1,907.8) | (786.9) | (993.5) | (1,935.2) | (1,695.1) |
| Acquisition of subsidiaries, net of cash acquired | - | - | - | (233.9) | (9.0) |

| | Six months ended 30 June | | Year ended 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| Dividend of associates.......................... | 1.5 | - | - | - | - |
| Acquisition of associates...................... | - | (52.2) | (52.2) | - | - |
| Cash flow from investing activities....... | (1,942.7) | (874.6) | (1,126.5) | (2,248.8) | (1,770.7) |
| Net money market instruments issued/(repaid)...................................... | 16.1 | (3.3) | (6.5) | (13.3) | 22.3 |
| Net movements in treasury shares and own equity derivative activity.............. | 184.3 | (122.1) | (302.0) | (0.9) | (39.2) |
| Capital reduction.................................. | 352.3 | - | - | - | - |
| Dividend payments .............................. | (196.4) | (124.0) | (124.0) | (82.6) | (72.3) |
| Contribution received due to the Artio Global IPO ........................................... | - | - | - | - | 309.0 |
| Issuance and repayment of financial liabilities designated at fair value.......... | 356.2 | 206.1 | 340.2 | 175.3 | 847.5 |
| Issuance of lower tier 2 bond ................ | - | - | 242.1 | - | - |
| Dividend payment to non-controlling interests ................................................ | (0.2) | (0.5) | (0.5) | (0.3) | (0.3) |
| Cash flow from financing activities ...... | 7.8 | (43.8) | 149.3 | 78.2 | 1,067.1 |
| Total ..................................................... | (456.5) | (119.1) | 3,980.5 | (5,425.8) | 806.3 |
| Cash and cash equivalents at the beginning of the period ......................... | 17,317.3 | 13,263.1 | 13,263.1 | 18,390.5 | 17,591.6 |
| Cash flow from operating activities after taxes ............................................. | 1,478.4 | 799.4 | 4,957.7 | (3,255.3) | 1,510.0. |
| Cash flow from investing activities....... | (1,942.7) | (874.6) | (1,126.5) | (2,248.8) | (1,770.7) |
| Cash flow from financing activities ...... | 7.8 | (43.8) | 149.3 | 78.2 | 1,067.1 |
| Effects of exchange rate changes .......... | (1.2) | 211.4 | 73.7 | 298.4 | (7.4) |
| Cash and cash equivalents at the end of the period ............................................. | 16,859.6 | 13,355.5 | 17,317.3 | 13,263.1 | 18,390.5 |

### *Cash flow from operating activities after taxes*

Cash flow from operating activities after taxes increased by CHF 679.0 million, or 84.9 per cent., to CHF 1,478.4 million in the six months ended 30 June 2012 compared to CHF 799.4 million in the six months ended 30 June 2011. This increase was mainly due to a net increase in due to customers of CHF 1,268.2 million in the first six months of 2012 compared to a net disbursement of loans of CHF 530.1 million in the first six months of 2011.

Cash flow from operating activities after taxes was CHF 4,957.7 million in the year ended 31 December 2011, compared to a cash outflow of CHF 3,255.3 million in the year ended 31 December 2010. The main factor contributing to the change from a cash outflow to a cash inflow was the net disbursement of loans to customers of CHF 3,454.8 million in 2010, compared to a net inflow of client deposits of CHF 4,122.9

million in 2011. The increase in client deposits in 2011 was due in part to a shift from money market investments to deposits as clients were increasingly cautious during the year.

Cash flow from operating activities after taxes was an outflow of CHF 3,255.3 million in the year ended 31 December 2010, compared to a net inflow of CHF 1,510.0 million in the year ended 31 December 2009. The main factor contributing to the change from a cash inflow to a cash outflow was the net inflow of client deposits of CHF 1,167.1 million in 2009, compared to a net disbursement of loans of CHF 3,454.8 million in 2010. Cash flows associated with our trading portfolio and derivative financial instruments changed from a cash outflow of CHF 1,328.4 million in 2009 to a cash outflow of CHF 797.6 million in 2010. A CHF 736.5 million decrease in net due to banks also contributed to the change from a cash inflow to a cash outflow.

### *Cash flow from investing activities*

Cash used in investing activities was CHF 1,942.7 million in the six months ended 30 June 2012 compared to a cash outflow of CHF 874.6 million in the six months ended 30 June 2011. This change was mainly due to an increase in financial investments available for sale.

Cash used in investing activities decreased by CHF 1,112.3 million, or 49.9 per cent., to CHF 1,126.5 million in the year ended 31 December 2011 compared to CHF 2,248.8 million in the year ended 31 December 2010. The decrease was mainly due to a decrease in investments in financial investments available for sale of CHF 941.7 million.

Cash used in investing activities increased by CHF 478.1 million, or 27.0 per cent., to CHF 2,248.8 million in the year ended 31 December 2010 compared to CHF 1,770.7 million in the year ended 31 December 2009. The increase was mainly due to an increase in investments in financial investments available-for-sale of CHF 240.1 million, as well as the acquisition of ING Bank (Switzerland) Ltd. in January 2010.

### *Cash flow from financing activities*

Cash flow from financing activities was CHF 7.8 million in the six months ended 30 June 2012 compared to a cash outflow of CHF 43.8 million in the six months ended 30 June 2011. The main factor contributing to the change from a cash outflow to a cash inflow was the increase in financial liability designated at fair value as well as the higher dividend payment compared to the previous year and the capital reduction.

Cash flow from financing activities increased by CHF 71.1 million, or 90.9 per cent., to CHF 149.3 million in the year ended 31 December 2011 compared to CHF 78.2 million in the year ended 31 December 2010. The increase was mainly due to our issuance of a lower tier 2 bond during 2011, which resulted in a cash inflow of CHF 242.1 million.

Cash flow from financing activities decreased by CHF 988.9 million, or 92.7 per cent., to CHF 78.2 million in the year ended 31 December 2010 compared to CHF 1,067.1 million in the year ended 31 December 2009. The decrease was mainly due to a net issuance of long-term debt of CHF 847.5 million in 2009, compared to a net issuance of CHF 175.3 million in 2010. A contribution received in 2009 in connection with the Artio Global initial public offering in the amount of CHF 309 million also contributed to our cash flow in 2009.

### Loan Facility

On 31 May 2012, the Company entered into a CHF 200 million loan facility agreement (the "ZKB Loan") with Zürcher Kantonalbank and Banque Cantonale Vaudoise, which is available for a period of three years, commencing 1 June 2012. The ZKB Loan can be drawn in integral multiples of CHF 25 million in terms of three months (or integral multiples thereof), with no term ending after 31 May 2015 (the "Maturity Date"). Each loan drawn under the ZKB Loan is repayable at the end of its three-month term. The Company may, no earlier than 60 calendar days and no later than 30 calendar days prior to the first and second anniversary of the signing date of the ZKB Loan, apply for a prolongation of the Maturity Date by one year in each case (i.e., to extend the Maturity date to 31 May 2016 and 31 May 2017, respectively). The lenders shall consider any such request and approve or reject it at their discretion. The interest rate for the ZKB Loan is 1.3 per cent. over LIBOR per annum. The Company must also pay a commitment fee of 45 basis points per annum on the undrawn amount of the ZKB Loan. A prolongation fee of 5 basis points must also be paid upon any prolongation as described above. The ZKB Loan facility agreement is governed by Swiss law. As at the date of this Offering Circular, we had not drawn down any amounts under the ZKB Loan. The Company entered into the ZKB Loan for general corporate purposes and to ensure financial flexibility.

**Regulatory Capital**

In managing our capital, we consider a variety of requirements and expectations. Sufficient capital must be in place to support current and projected business activities, according to both our own internal assessment and the requirements of our regulators, and in particular, FINMA. Capital is also managed in order to achieve sound capital ratios and to ensure strong external credit ratings.

Ensuring compliance with minimum regulatory capital requirements and targeted capital ratios is central to capital adequacy management. In this on-going process, we manage our capital on the basis of target ratios for core (tier 1) capital and total capital. In the target-setting process, we take into account the regulatory minimum capital requirements, regulatory expectations that we hold additional capital above the minimum, our internal assessment of aggregate risk exposure requiring equity capital provision, the views of rating agencies, and comparison to our peer institutions, taking into consideration our business mix and market presence.

In 2011, the scope of consolidation used for the calculation of capital adequacy differs from that applied for accounting purposes. Julius Baer Life (Bahamas) Ltd., a Group insurance company founded in 2008, is not consolidated for the calculation of capital adequacy. For further information about consolidated companies, please refer to Note 26 of our consolidated financial statements included elsewhere in this Offering Circular.

In contrast to the calculations carried out for our financial reporting, for which we calculate risk-weighted assets according to BIS guidelines, the calculation of our regulatory capital requirement is based on FINMA legal requirements. For regulatory reporting, we apply the Swiss standardised approach. This results in higher risk-weighted assets and consequently, in higher capital requirements than would be required by BIS guidelines.

BIS guidelines require a tier 1 ratio of at least 4 per cent. of risk-weighted assets and total eligible capital equal to at least 8 per cent. of risk-weighted assets. According to a new FINMA guideline which came into effect on 1 July 2011 an additional capital buffer of 4 per cent. must be held, based on the categorisation of our institution. As at 30 June 2012, we were adequately capitalised under the respective FINMA and BIS guidelines.

The following table sets forth our BIS regulatory capital resources as at 30 June 2012 and 2011 and as at 31 December 2011, 2010 and 2009:

| | As at 30 June | | As at 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | *(CHF in millions)* | | |
| **Risk-weighted positions** | | | | | |
| Credit risk | 8,675.7 | 8,773.5 | 8,716.6 | 8,115.9 | 7,140.6 |
| Non-counterparty-related risk | 534.6 | 540.3 | 529.9 | 534.1 | 465.0 |
| Market risk[(1)] | 853.3 | 1,145.3 | 671.5 | 514.2 | 708.6 |

| | As at 30 June | | As at 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | (CHF in millions) | | |
| Operational risk[(1)] | 2,871.3 | 2,867.8 | 2,892.5 | 2,896.3 | 2,656.2 |
| Total | 12,934.9 | 13,326.9 | 12,810.5 | 12,060.5 | 10,970.4 |
| **Eligible capital** | | | | | |
| Eligible tier 1 capital | 2,765.9 | 2,896.4 | 2,788.5 | 2,873.4 | 2,656.4 |
| of which hybrid tier 1 capital | 225.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Eligible tier 1 and tier 2 capital | 3,056.4 | 2,930.9 | 3,067.3 | 2,933.6 | 2,725.2 |
| of which lower tier 2 capital | 243.1 | - | 242.1 | - | - |
| BIS tier 1 ratio | 21.4% | 21.7% | 21.8% | 23.8% | 24.2 |
| BIS total capital ratio | 23.6% | 22.0% | 23.9% | 24.3% | 24.8 |

Note:

(1) Risk-weighted figure calculated by taking 12.5 times the capital adequacy requirement according to the applied approach.

Total equity decreased to CHF 4.2 billion as at 30 June 2012 compared to CHF 4.3 billion as at 31 December 2011. BIS total capital remained unchanged at CHF 3.1 billion, as did BIS tier 1 capital, which remained at CHF 2.8 billion. The decreased deduction of intangible assets and unrealised gains was roughly offset by the deduction in respect of shares bought back during the first three months of 2012. Risk-weighted assets increased slightly to CHF 12.9 billion as at 30 June 2012 compared to CHF 12.8 billion as at 31 December 2011, resulting in a BIS total capital ratio of 23.6 per cent. and a BIS tier 1 ratio of 21.4 per cent. as at 30 June 2012.

Mainly as a result of the share buyback we undertook in 2011, total equity declined by CHF 0.2 billion to CHF 4.3 billion as at 31 December 2011 from CHF 4.5 billion as at 31 December 2010. BIS total capital increased by CHF 0.1 billion to CHF 3.1 billion, due, in part, to the issuance of CHF 250 million of lower tier 2 capital at the end of 2011, while BIS tier 1 capital decreased by CHF 0.1 billion to CHF 2.8 billion. Due in part to a conservative repositioning of our treasury portfolio at the end of 2011, risk-weighted assets were CHF 12.8 billion as at 31 December 2011, compared to CHF 12.1 billion as at 31 December 2010 pro forma for Basel 2.5, which was implemented on 1 January 2011. As a result, at 31 December 2011 our BIS total capital ratio was 23.9 per cent. and our BIS tier 1 ratio at 21.8 per cent., well above our targeted medium-term capital ratio floors of 16 per cent. and 12 per cent., respectively.

Total equity increased by 7.0 per cent. to CHF 4.5 billion as at 31 December 2010, compared to CHF 4.2 billion as at 31 December 2009, and BIS tier 1 capital grew by CHF 0.2 billion to CHF 2.9 billion. Risk-weighted assets increased by 10.0 per cent. to CHF 12.1 billion, resulting in a BIS tier 1 ratio of 23.8 per cent. under Basel II as at 31 December 2010 compared to 24.2 per cent. as at 31 December 2009. This slight decline was mainly attributable to the consolidation of ING Bank (Switzerland) Ltd. from January 2010.

### *Capital components*

The main adjustment to total equity for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table.

| | As at 30 June | | As at 31 December | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 | 2009 |
| | | | (CHF in millions) | | |
| Gross tier 1 capital after deduction of treasury shares | 4,372.2 | 4,580.7 | 4,427.3 | 4,586.0 | 4,329.1 |
| of which non-controlling interests | 1.9 | 1.8 | 1.9 | 2.1 | 1.7 |
| of which innovative capital instruments | 225.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Goodwill and other intangible assets | (1,497.3) | (1,589.5) | (1,543.1) | (1,635.4) | (1,572.2) |
| Other deductions | (109.0) | (94.8) | (95.7) | (77.2) | (100.5) |
| Eligible tier 1 capital | 2,765.9 | 2,896.4 | 2,788.5 | 2,873.4 | 2,656.4 |
| Tier 2 capital | 290.5 | 34.5 | 278.8 | 60.2 | 68.8 |
| of which lower tier 2 capital | 243.1 | - | 242.1 | - | - |
| Eligible tier 1 and tier 2 capital | 3,056.4 | 2,930.9 | 3,067.3 | 2,933.6 | 2,725.2 |

Hybrid tier 1 capital represented CHF 225.0 million, or 8.1 per cent., of our total tier 1 capital as at 30 June 2012. Hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited. The preferred securities were issued in exchange for a note of Julius Baer Group Ltd. in the same amount and with mirror conditions. Their maturity is essentially perpetual and they are subordinated to all other borrowings. They have a preference over equity with regard to the payment of dividends and liquidation proceeds, though such dividends and liquidation proceeds will be paid only to the extent that they comply with the banking and company law regulations applicable to distributions made by Julius Baer Group Ltd. The preferential dividend right is not cumulative. The preferred securities are fully paid-up, devoid of any voting rights or rights associated therewith, capable of sustaining losses, unsecured and repayable at the issuer's option only, no earlier than 2 December 2015 and only with the approval of the regulatory authorities. The hybrid equity created by the issue of preferred securities is recognised in full as core capital for the purpose of adherence to consolidated equity requirements.

Lower tier 2 capital represented CHF 243.1 million, or 8.0 per cent., of our total capital as at 30 June 2012 and consists of subordinated unsecured bonds, fully paid-up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. in December 2011 in the amount of CHF 250 million. They constitute valid and legally binding obligations of the issuer enforceable in accordance with their terms and rank at least *pari passu* with all other unsecured and subordinated obligations of the issuer. The maturity date of the bonds is 23 December 2021. From (and excluding) the issue date (23 December 2011) to (but including) the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50 per cent per annum and during the period (reset period) commencing on (and excluding) the reset date and ending on (but including) the maturity date (23 December 2021) a fixed rate of interest of the rate per annum equal to the sum of the benchmark rate (*i.e.*, in principle the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. CET on the date falling five business days before the reset date) and the margin (*i.e.*, 3.815 per cent.). The interest will be payable annually in arrears on 23 December (30/360). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016, and upon the occurrence of certain capital events or tax events) in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days' notice to the holders of the bonds.

***Minimum capital requirement***

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 68 per cent as at 31 December 2011.

(2010: more than 67 per cent.; 2009: over 65 per cent.) of the total required capital. Capital required for non-counterparty risk (2011: 4 per cent.; 2010: 5 per cent.; 2009: 4 per cent.) and market risk (2011: 5 per cent.; 2010: 4 per cent.; 2009: 7 per cent.) is of minor significance. As at 31 December 2011, the capital required to cover operational risk accounted for 23 per cent. of total required capital (2010: 24 per cent.; 2009: 24 per cent.).

| | As at 30 June | | As at 31 December | | |
|---|---|---|---|---|---|
| | **2012** | **2011** | **2011** | **2010** | **2009** |
| | | | *(CHF in millions)* | | |
| Credit risk | 692.8 | 701.9 | 697.3 | 649.3 | 571.2 |
| of which for equity securities in the banking book | 1.0 | 8.5 | 1.7 | 9.9 | 10.8 |
| Non-counterparty-related risk | 43.4 | 43.2 | 42.4 | 42.7 | 37.2 |
| Market risk | 68.3 | 91.6 | 53.7 | 41.1 | 56.7 |
| Operational risk | 229.7 | 229.5 | 231.4 | 231.7 | 212.5 |
| Total | 1,034.8 | 1,066.2 | 1,024.8 | 964.8 | 877.6 |

## Contractual Obligations and Commitments

The following table sets forth our contractual obligations and commitments as at 31 December 2011.

| | **Not later than 1 year** | **1-5 years** | **Later than 5 years** | **Total** |
|---|---|---|---|---|
| | | *(CHF in millions)* | | |
| Debt issued | 8.7 | - | 467.1 | 475.8 |
| Operating leases | 41.6 | 132.5 | 94.2 | 268.2 |
| Total | 50.3 | 132.5 | 561.3 | 744.0 |

Operating leases in the gross amount of CHF 47.0 million were included in operating expenses for the year ended 31 December 2011.

## Off Balance Sheet Items

Set forth below are our off balance sheet liabilities as at 31 December 2011, 2010 and 2009 on an IFRS basis:

| | As at 31 December | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| | *(CHF in millions)* | | |
| Contingent liabilities | 492 | 477 | 424 |
| Irrevocable commitments | 79 | 47 | 18 |
| Securities lending and repo transactions | 6,982 | 5,323 | 5,878 |
| Total | 7,553 | 5,847 | 6,320 |

# INDUSTRY

## Wealth Management Industry Overview

The wealth management industry comprises asset management and private banking activities. Wealth management therefore includes services related to, and the provision of, products for the purpose of preserving and enhancing financial wealth. These services and products are offered to private individuals and institutions, such as insurance companies, pension funds and trusts.

Private banks offer banking and investment management services for affluent individuals and wealthy individuals and families, often referred to as "high net worth individuals" or "HNWIs". Although there is no single, standard definition of the term, HNWIs typically include individuals (and their families) controlling more than USD 1 million in liquid financial assets (so called "bankable assets"). Of these individuals, there is a further sub-categorisation of "ultra high net worth individuals", or "UHNWIs". UHNWIs are typically defined as individuals that hold more than USD 30 million in liquid financial assets.

The Julius Baer Group is engaged in private banking, focusing primarily on the demands of sophisticated private clients, family offices and independent asset managers from around the world. Private banking activities will therefore be the focus of this section.

### Private Banking Product Offering

Private banking products and services are often, but not exclusively, aimed at achieving capital protection and long-term investment performance. Other strategic aims that HNWIs look for when utilising these products and services include regular incomes or dividends from portfolio management, as well as performance stability. Private banks provide clients with advice and tailored solutions aimed at addressing their current and future financial situation and needs with respect to wealth management. These solutions include a broad range of services, such as investment advice, financial, tax and succession planning, family office services, asset consolidation, estate planning, trust services, and transaction execution, as well as more traditional banking services, such as accepting deposits, granting Lombard loans (loans extended against pledged collateral, which is typically in the form of liquid assets such as stocks and bonds) and other types of loans, executing foreign exchange transactions and providing custody services. Private banks may also provide support in other areas, such as the achievement of philanthropic goals or the protection of specific assets, such as artwork.

Clients' financial needs are often complex and specific in nature and thus require professional services and long-term relationships with specialised service providers. Moreover, clients are diverse and have different requirements and expectations. Clients are becoming increasingly sophisticated and self-directed, making use of alternative channels to access information and execute simple transactions. Private banks increasingly need to provide customised solutions in order to differentiate themselves from the offerings of other competitors.

Investment strategies for private banking clients have become highly sophisticated through the use of well diversified portfolios, which can include investments in bonds, equities and alternative financial products, such as private equity, single hedge funds, funds of hedge funds and structured products. These alternative products generally aim to improve capital protection and absolute returns under different and often volatile capital markets scenarios. Due to the range of products with different risk profiles, return potential, correlations and liquidity characteristics, a private bank may have the ability to add significant value for its clients.

Private banks can provide in-house services or can acquire services from third party providers or using a mix of the two approaches. The in-house product offering is driven by a bank's relative strength in developing and distributing competitive products. Private banks also tend to offer a range of third-party products to their clients designed to provide a "best in class" combined product offering. Outsourcing has also come to be seen as helpful in improving the efficiency of private banks.

Private banking clients can generally choose between discretionary and non-discretionary services, depending on whether the private bank or the client makes the investment decision. In a discretionary portfolio, the responsibility for the investment decision is delegated to the bank, which chooses investments based on a pre-determined mandate. Non-discretionary clients make their own decisions regarding individual investments. These clients may use the banks' investment advice and decision support services or may simply rely on the private bank to provide administrative services.

Private banks' fees from discretionary accounts are usually based on a fixed percentage of the clients' AuM. Non-discretionary services generate commissions that are often based on the volume and the nature of the transaction being executed. Margins earned on discretionary mandates tend to be higher than margins earned on non-discretionary mandates, reflecting the additional service provided and risks taken with respect to discretionary accounts. Private banks earn additional fees from services such as custody and advisory fees. To a lesser extent, private banks earn interest income on deposits and loans granted to clients and trading income stemming from the execution of clients' transactions and, to differing degrees, asset and liability management and proprietary activities.

### Private Banking Competitive Landscape

Large private banks that compete globally include UBS, Credit Suisse and Bank of America Merrill Lynch. The global competitive market tends to be fragmented, with none of the top four banks holding more than 4 per cent. of global market share in 2010 (Source: International Private Banking Study 2011). Tightening regulation and declining competitive advantage of offshore locations such as Liechtenstein and Switzerland have helped accelerate the movement to a more competitive landscape. American banks have tended to dominate the private banking landscape due to a large home market with a large proportion of HNWIs, allowing them to pursue a large scale business model within a relatively homogeneous market. However, the majority of European wealth managers have larger offshore or cross-border businesses. Most wealth managers are part of a universal bank, rather than pure-play global private banks.

Outside of the two biggest wealth managers, UBS and Credit Suisse, the Swiss private banking market is fragmented. In particular, smaller private banks with less than CHF 10 billion in assets under management have been affected by political and regulatory issues (Source: International Private Banking Study 2011).

The top 10 players in the Swiss private banking industry by AuM/total client assets are as follows:

| **Swiss Private Banking Operations** | **AuM / Total Client Assets** |
|---|---|
| | *(CHF billions)* |
| UBS[(1)] | 913 |
| Credit Suisse[(2)] | 774 |
| Julius Baer | 269 |
| Pictet[(3)] | 232 |
| HSBC Private Bank (Suisse)[(4)] | 166 |
| Lombard Odier[(5)] | 155 |
| BPE Rothschild[(6)] | 74 |
| BSI[(6)] | 72 |

| **Swiss Private Banking Operations** | **AuM / Total Client Assets** |
|---|---|
| EFG International | 71 |
| UBP(6) | 61 |

Source: Public information including corporate websites, financial reports and media releases.

Notes:

(1) Excluding Wealth Management Americas.

(2) Excluding Corporate and Institutional Clients (Switzerland).

(3) Total client assets, excluding asset management business.

(4) As at 31 December 2011.

(5) Total client assets, including asset management business.

(6) As at 31 December 2011, excluding asset management business.

## Private Banking Clients

According to the World Wealth Report 2012, the distribution of global wealth in 2011 was as follows:

| **Region** | **HNWI Population (million)** | **HNWI Wealth Distribution (USD trillion)** |
|---|---|---|
| North America | 3.4 | 11.4 |
| Asia Pacific | 3.4 | 10.7 |
| Europe | 3.2 | 10.1 |
| Latin America | 0.5 | 7.1 |
| Middle East | 0.5 | 1.7 |
| Africa | 0.1 | 1.1 |
| Total | 11.1 | 42.1 |

According to the World Wealth Report 2012, the breakdown of the share of global HNWIs (as a percentage of total population) by country for 2008 and 2011 was as follows:

| | **Share of Global HNWI Population** | |
|---|---|---|
| | **2008** | **2011** |
| | *(%)* | |
| United States | 30.9 | 28.0 |
| Japan | 15.9 | 16.6 |
| Germany | 9.4 | 8.7 |
| China | 4.2 | 5.1 |
| United Kingdom | 4.2 | 4.0 |

| | Share of Global HNWI Population | |
|---|---|---|
| | 2008 | 2011 |
| | (%) | |
| France | 4.0 | 3.7 |
| Canada | 2.5 | 2.6 |
| Switzerland | 2.2 | 2.3 |
| Australia | - | 1.6 |
| Italy | 1.9 | 1.5 |
| Brazil | 1.5 | - |
| Others | 23.2 | 25.8 |
| Total | 100.0 | 100.0 |

The majority of the world's private banking clients remains concentrated in the United States, Japan and Germany. These three countries together accounted for approximately 53 per cent. of the world's HNWIs in 2011. However, the share held by these three countries has been slowly eroded by growing HNWI populations in emerging markets, mainly in Asia.

According to the World Wealth Report 2012, the breakdown of HNWIs by category and total wealth by category as at 31 December 2011 was as follows:

| Wealth Group (Financial Assets) | HNWI Population (million) |
|---|---|
| Ultra HNWIs (greater than USD 30 million) | 0.1 |
| Mid-tier HNWIs (USD 5 million to USD 30 million) | 1.0 |
| HNWIs (USD 1 million to USD 5 million) | 10.0 |
| Total | 11.1 |

Private banks usually segment and service their clients according to the value of their AuM, the source of client wealth, investment behaviour and domicile, as well as specific financial needs and key products and services requested. While clients at the lower end of the range of AuM tend to receive individual services with more standardised mandates and offerings, mid-tier and UHNWIs have access to a broader range of personalised services with more flexible product offerings. Specialist relationship managers and family offices provide tailored services to meet the complex wealth management needs of UHNWIs. In 2011, of all HNWIs, UHNWIs experienced the highest level of growth in terms of wealth, with their wealth having grown at a rate of 3.6 per cent., compared to 1.7 per cent. across the other segments (Source: BCG Global Wealth Report 2012). This trend is expected to continue, especially in emerging markets.

### Onshore and Offshore Private Banking

The private banking market can be divided into onshore and offshore banking, depending on where assets are booked and thus regulated. Onshore banking includes assets booked in the client's country of domicile.

Onshore banking typically requires a local banking licence, a local booking centre and related banking infrastructure in the relevant country, which may be outsourced to an external provider. Offshore banking includes assets booked on behalf of non-residents in international financial centres. Offshore banking typically allows private banking clients to use specialised professional financial services combined with a high level of confidentiality not available in their own country of domicile. In addition, clients also often hold assets outside their countries of domicile in order to diversify country and currency risks and to avoid political and domestic market financial risks.

### Swiss Private Banking Market

The Swiss private banking market comprises both onshore and offshore banking. Total AuM (including institutional assets) amounted to an estimated CHF 4.3 trillion as at 31 March 2012, including approximately CHF 2.2 trillion offshore assets (Source: Swiss National Bank, Berenberg Bank). We believe that Switzerland is widely regarded as the world's largest offshore banking centre, with a global market share of approximately 27 per cent. The largest pool of wealth booked offshore comes from Western European clients, but this is likely to decline as Swiss banks are expected to benefit from asset inflows from high growth regions such as Asia. The factors that have led to Switzerland's success as an offshore banking centre have included the high degree of client confidentiality afforded to clients in accordance with the bank secrecy law enacted in 1934; professional services provided by institutions with significant money management experience; high political stability; a neutral international, multicultural and multilingual status; a robust and reliable legal system; a strong currency; macro-economic stability; a favourable tax rate; and access to well qualified specialist professional services, such as lawyers and tax experts.

Swiss banks are regulated and supervised by FINMA. Switzerland is also a member of the Financial Action Task Force, an inter-governmental body established to develop and promote national and international policies against money laundering and terrorist financing. Due to its importance as an international offshore centre and some highly publicised cases of money-laundering, the Swiss banking sector has been under focus in recent years. Today, Swiss anti-money laundering rules are widely regarded as stringent and effective.

A number of developments have affected, and will continue to have an impact on, the Swiss private banking market, including:

- ***Pressure on Swiss bank client confidentiality:*** In Switzerland, banks and their employees are bound by banking and securities professional confidentiality regulations pursuant to the Federal Act on Banks and Savings Banks of 8 November 1934, as amended (*Bundesgesetz über die Banken und Sparkassen*) (the "BankA") and the SESTA (each as defined herein), under which they are obliged to keep any client information secret, including the existence of a client relationship. Any violation of these regulations is a criminal offence. These professional confidentiality provisions do not, however, provide protection to clients subject to criminal investigations or suspected of money laundering by Swiss authorities or where court testimony is compelled by Swiss judicial authorities. Further, FINMA may request client information and forward such information to foreign supervisory authorities or stock exchanges if such information is required for the direct supervision of banks, stock exchanges or securities markets, subject to certain requirements set forth in the FINMASA (as defined herein).

  Pressure on client confidentiality continues to increase worldwide and Germany, the United Kingdom, the United States and other countries as well as a number of institutions such as the OECD have increasingly put pressure on Switzerland to limit the scope of its bank client confidentiality laws. The Swiss government has, however, sought to manage these pressures, including, among other things, by proposing a final withholding tax (*Abgeltungssteuer*) to be applied unilaterally for certain countries by amending certain double taxation treaties and by entering into negotiations with the United States regarding FATCA, as described in further detail below.

There have been recent attempts by foreign countries to force Swiss banks to reveal the identities of their clients. U.S. authorities have twice requested client data relating to suspected tax evaders, which is required to be disclosed under the existing double taxation treaty with Switzerland. In response, the Swiss authorities agreed in September 2010 to provide details of 4,450 UBS clients to U.S. authorities. In May 2012, Switzerland amended a tax treaty with the United States, which would allow U.S. authorities to identify with greater ease any suspected U.S. taxpayers with undeclared Swiss accounts. Currently, U.S. authorities are also investigating eleven Swiss banks (including Bank Julius Baer & Co. Ltd., the Group's principal operating entity) that U.S. authorities suspect managed assets on behalf of undeclared U.S. taxpayers. The U.S. and Swiss authorities are in negotiations with the aim of reaching a resolution of the on-going dispute regarding tax matters between U.S. authorities and the Swiss financial industry, including as to the provision of U.S. taxpayer information by Swiss authorities to U.S. authorities. These negotiations are intended to facilitate the resolution of the investigations by U.S. authorities of the aforementioned Swiss banks.

In addition, according to press reports that have been confirmed by the relevant authorities, German authorities have purchased several CDs containing the names of suspected tax evaders in an effort to combat tax evasion by German citizens with accounts at Swiss banks, including Julius Baer.

Because Swiss banking client confidentiality laws have historically been an important factor influencing HNWIs' choice to hold their assets in Switzerland, any weakening of Swiss bank client confidentiality might lead to outflows of AuM from Switzerland to other offshore banking centres. See "Risk Factors — Risks Related to the Company, the Enlarged Group and its Industry — If the Swiss government is unsuccessful in managing pressures on client confidentiality, we could experience outflows of AuM or our business could otherwise be adversely affected".

- ***Withholding tax agreements:*** As noted above, the Swiss government has sought to manage pressures on client confidentiality, including, among other things, by proposing a final withholding tax (*Abgeltungssteuer*) to be applied unilaterally for certain countries by amending certain double taxation treaties and by entering into negotiations with the United States regarding FATCA. Switzerland signed withholding tax agreements with Germany and the United Kingdom in 2011, and in April 2012 it signed a further withholding tax agreement with Austria. Under these agreements, persons resident in Germany, the United Kingdom and Austria will have their existing banking relationships in Switzerland retrospectively taxed either by making a one-time tax payment or by disclosing their accounts. If these agreements are implemented, future investment income and capital gains of German, British and Austrian bank clients in Switzerland (which are not disclosed) will be subject to a final withholding tax (*Abgeltungssteuer*), with Switzerland transferring the proceeds to the German, British and Austrian authorities. The aim of these agreements is to prevent tax evasion while preserving bank secrecy. In June 2012, the Swiss parliament approved the withholding tax agreements and the agreements are expected to be ratified by Germany, the United Kingdom and Austria by end of 2012 or in 2013. In Switzerland, a referendum on the agreements may be held in November 2012. Provided that all necessary approvals are received in Switzerland as well as in Germany, the United Kingdom and Austria, the withholding tax agreements are expected to enter into force in 2013. In Germany, however, the political opposition may prevent the withholding tax agreement from being ratified. In particular, the purchase of further CDs in 2012 by German authorities may affect public perception of the withholding tax agreement and may compromise its ratification. In addition, even if the withholding tax agreements deflect pressures on client confidentiality, the impact of the final withholding tax (*Abgeltungssteuer*) on clients may cause them to transfer their assets elsewhere.

- ***Tax amnesties:*** Italy and Spain have attempted less aggressive paths to encourage repatriation of wealth held offshore in Switzerland. In March 2012, the Spanish government proposed a tax amnesty for the declaration of previously undeclared money. The assets declared will be subject to a 10 per cent. one-off charge. Italy has repatriated wealth over several occasions, with the latest instance occurring in 2009, when approximately €100 billion was repatriated. A 5 per cent. one-off charge was applied to these repatriations.

- ***Increasing regulatory and compliance costs:*** the cost of complying with regulatory requirements has increased substantially over the last few years and is expected to increase even further, with costs associated with information technology, legal, compliance and risk management expected to be particularly high. Against this background, it is expected that larger banks will increasingly have a competitive advantage due to their scale. Regulatory demands are also less stringent in certain other markets and financial centres. This may lead to unwanted outflows of AuM to markets with less regulation.

- ***Increased competition:*** tighter regulation with respect to offshore banking has forced Swiss private banks to focus on expanding their onshore European business. In the onshore European business, Swiss banks will have to compete with local private banks, which may have better established brand names. Swiss private banks also must contend with competition arising in Asia, where countries such as Hong Kong and Singapore are establishing wealth management services. In general, increasing wallet share may be difficult in new markets, as there is a need to understand the cultural and behavioural dynamics of these markets.

- ***Weak global economy:*** the Eurozone sovereign debt crisis remains a major concern for many HNWIs. Fears that the sovereign debt crisis might escalate into a full-blown macro-economic and banking crisis have pushed HNWIs into safer havens, such as cash and deposits. Slow world GDP growth has also negatively impacted risk appetites.

Competitors in the Swiss private banking market fall into the following broad categories:

- ***Swiss-based global universal banks:*** Credit Suisse and UBS have extensive wealth management businesses which offer private banking services in Switzerland and in a number of international markets. The Swiss private banking operations of these banks are substantially larger in terms of AuM than other market participants.

- ***Non-Swiss global banks:*** foreign global banks with substantial private banking divisions in Switzerland include Credit Agricole, BNP Paribas, Citigroup, Deutsche Bank, HSBC, JP Morgan, Lloyds Banking Group and Royal Bank of Scotland, among others.

- ***Specialised Swiss-based private banks:*** the Swiss private banking market is characterised by a relatively large number of domestic Swiss banks that focus on providing onshore and offshore private banking products and services, including BP E de Rothschild, BSI, Lombard Odier, Pictet, Sarasin, UBP and Vontobel, among others.

- ***Private banking divisions of Swiss-based retail banks:*** several Swiss-based retail banks, such as Banque Cantonale Vaudoise, St. Galler Kantonalbank and Zürcher Kantonalbank, have also built sizeable private banking businesses.

- ***Wealth managers and investment advisers:*** this group includes wealth managers and investments advisers without banking licences. These providers both compete with traditional private banks and provide them with business in the form of client introductions for custody, transaction execution services and product services.

- ***Alternative business models:*** such models include family offices and online wealth managers. Family offices are dedicated solely to serving the needs of HNW families, where generally the main goal is wealth appreciation. Online wealth managers provide brokerage services, online advice, research, portfolio management and investment products online. Currently, online wealth managers are mainly utilised by clients in lower wealth segments; however, there is a possibility that the demand for such services will expand across all wealth groups.

The Swiss market remains relatively fragmented, with more than 300 licensed banks. In addition, due to the substantial number of wealth management providers in Switzerland and limited net new money inflows, there are significant competitive pressures in the Swiss private banking market. Higher fixed costs, such as those attributable to regulatory and information technology requirements, increasingly favour larger players with significant scale advantages. We expect further consolidation in the Swiss private banking market.

## Private Banking Markets

In addition to Switzerland, the Julius Baer Group competes, and the Enlarged Group will compete in, the following markets:

- Western Europe;
- Central and Eastern Europe;
- Asia;
- Latin America; and
- the Middle East.

Growth of offshore assets from the core European private banking markets (Germany, the United Kingdom, Italy, France and Spain) has been relatively weak in recent years, and expectations are for continued sluggish growth.

Other private banking markets are currently experiencing significant growth rates. Growth in these countries is driven by macro-economic growth on the one hand and by repatriation of assets on the other. According to the World Wealth Report 2012, the number of HNWIs in the Asia Pacific region increased by 1.6 per cent. per annum to 3.4 million in 2011, with total wealth of USD 10.7 trillion. The wealth accumulated by Asian HNWIs is expected to continue to grow with a projected compound annual growth rate of 11.1 per cent. until the end of 2016 (Source: BCG Global Wealth Report 2012). Developing markets are expected to be the main drivers of growth in global wealth in coming years.

Given current and expected growth rates for emerging markets, numerous opportunities exist for private banks. Growth in wealth management services is expected to occur in both onshore and offshore banking, but there is expected to be stronger growth for onshore banking services.

The following table shows growth in private wealth by region for 2011 as well as expected growth over the period 2011 to 2016, according to the BCG Global Wealth Report 2012:

| Change in Total Private Wealth by Region | 2010-2011 Growth (%) | 2011 to 2016E compound annual growth rate (%) |
|---|---|---|
| North America | (0.9) | 1.8 |
| Western Europe | (0.4) | 1.8 |
| Central and Eastern Europe | 14.4 | 8.7 |
| Japan | (2.0) | 0.8 |
| Latin America | 10.6 | 8.9 |
| Middle East and Africa | 4.7 | 6.6 |
| Asia Pacific (excluding Japan) | 10.7 | 11.1 |
| Global | 1.9 | 4.3 |

***Western Europe***

Western Europe has been adversely impacted by the Eurozone sovereign debt crisis, but it remains the second wealthiest region worldwide. In 2011, private wealth declined by 0.4 per cent. in the region (Source: BCG Global Wealth Report 2012). The amount of wealth invested in equities fell by 7.1 per cent., primarily due to weak performance in the Western European markets and continued asset reallocation, with large amounts of wealth being placed in bonds and cash deposits. However, various pockets of HNWI-growth emerged in Western Europe. In Ireland, for example, the number of HNWIs grew by 16.8 per cent. as the country experienced growth in the aftermath of austerity measures by the government. Wealth in the region as a whole, however, is expected to grow at a compound annual growth rate of 1.8 per cent. until the end of 2016, driven by moderate equity market recoveries in the largest economies.

***Central and Eastern Europe***

The Central and Eastern Europe market may offer significant opportunities for the private banking industry. According to the World Wealth Report 2012, Eastern European wealth grew by 14.4 per cent. in 2011, which was primarily attributable to growth in Russia, one of the world’s largest natural resources exporters. Eastern European wealth is forecast to grow at a compound annual growth rate of 8.7 per cent. over the next five years, faster than Western Europe. In contrast with many developed regions, where clients shifted assets to cash and deposits, holdings of bonds, equities and cash and deposits each grew by 14 per cent. in 2011. Many of the wealth management services offered by local banks in this region, which are often controlled by Western European banks, are based on a HNWI banking concept.

***Asia Pacific***

The HNWI population is growing, and is expected to grow faster than the HNWI populations of developed markets. According to the World Wealth Report 2012, in 2011, the amount of wealth held in equities grew by 4.1 per cent., wealth held in bonds increased by 17.5 per cent. and wealth held in cash and deposits increased by 13.4 per cent. In 2011, overall growth in the region was tempered by decreases in the HNWI populations in certain key Asia Pacific markets, such as Hong Kong and India. Singapore also experienced a decline of 7.8 per cent. in its HNWI population, driven by a decline in exports due to the on-going Eurozone sovereign debt crisis.

However, growth in HNWIs and in overall wealth in the Asia Pacific region is expected to continue as GDP continues to grow at robust rates, especially in China and India, as a result of strong government and private consumption. The region’s private banking sector is expected to continue to expand in line with growth in the number of HNWIs and overall wealth. Large amounts of wealth generated in this region are generally booked either onshore or offshore in Asia’s two main private banking centres, Hong Kong and Singapore. Recently, Singapore has evolved into Asia’s leading private banking centre. Investors benefit from Singapore’s political and legal security, its attractive tax framework and its strict client confidentiality laws.

***Latin America***

Latin American stock markets have generally been affected to a lesser degree by global macro-economic uncertainty compared to many other stock markets. According to the World Wealth Report 2012, in 2011, the number of HNWIs grew by 5.4 per cent. to reach 0.5 million. Wealth held in equities, bonds and cash and deposits increased by 2.8 per cent., 16.6 per cent. and 9.2 per cent., respectively. In Brazil, where gross national income, national savings, real estate and other key financial metrics demonstrated material improvements, the HNWI population grew by 6.2 per cent. in 2011.

Private wealth is expected to grow at a compound annual growth rate of 8.9 per cent to 2016. Latin America is widely perceived as a promising market for further growth for international private banks and several new participants in the private banking market have emerged, operating both onshore and offshore, such as BBVA, Citigroup, Credit Suisse, HSBC, Santander, UBS and BTG Pactual. Latin American clients have historically booked their offshore assets in the United States, the Caribbean or Switzerland, although there has been a shift recently towards booking more assets in Switzerland due to the increased transparency requirements of recent U.S. legislation (*e.g.*, the U.S. Patriot Act). At the same time, onshore offerings have become more attractive as established international markets enter the Latin American market.

***Middle East***

Private banks have been present in the Middle Eastern market for some time, and the market has consequently become more competitive. According to the World Wealth Report 2012, private wealth in the Middle East (including Africa) grew by 4.7 per cent. in 2011. However, it is estimated that less than 20 per cent. of local HNWI wealth remains inside the region. Private wealth is expected to grow at a compound annual growth rate of 6.6 per cent. to 2016 driven by strong GDP growth from oil-rich countries. Bahrain and Dubai have developed into the main private banking centres in the Middle East.

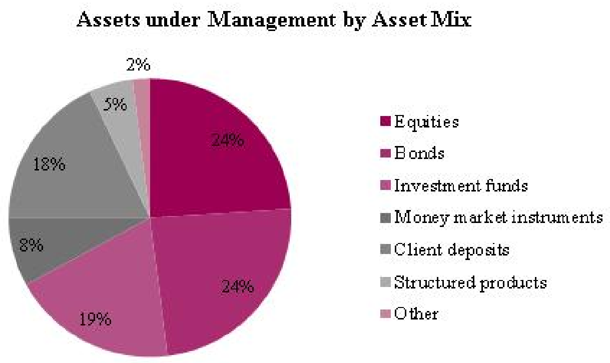
## BUSINESS — JULIUS BAER GROUP

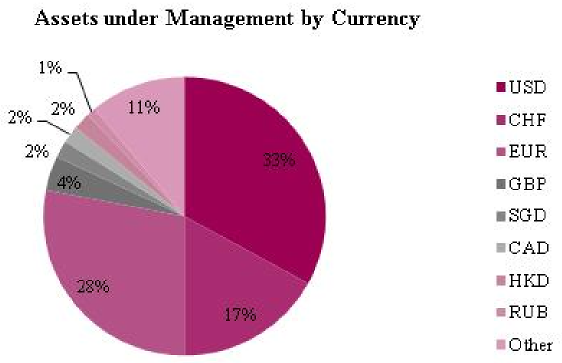
### Overview

The Julius Baer Group is the leading Swiss pure private banking group, focusing primarily on the demands of sophisticated private clients, family offices and independent asset managers from around the world. We have the largest international presence of all Swiss private banks with over 40 locations in more than 20 countries, including a comprehensive pan-Swiss network. Switzerland and Asia are our two home markets, with our head office being located in Zurich.

The Shares of Julius Baer Group Ltd. are listed in accordance with the Main Standard of the SIX Swiss Exchange and traded under the ticker symbol "BAER". They form part of the Swiss Market Index (SMI) of the 20 largest and most liquid Swiss stocks. As at 30 June 2012, Julius Baer had a BIS tier 1 ratio of 21.4 per cent. (under Basel 2.5), which was well in excess of the minimum requirements. In addition, as at 30 June 2012, Julius Baer had total client assets of CHF 269 billion, with AuM accounting for CHF 179 billion. The Julius Baer Group employs a staff of over 3,600 worldwide.

The breakdown of our AuM by asset mix and currency mix as at 30 June 2012 was as follows:




### History

Our principal operating entity's origins date back to 1890. Since that time, we have expanded our business and developed an international presence. In 1974, Julius Baer Holding Ltd. was formed and Bank Julius Baer & Co. Ltd. was incorporated in Zurich. Julius Baer Holding Ltd. became a publicly traded company in Switzerland in 1980, being the first specialised Swiss private banking group to do so. In 1995 and 1997, Julius Baer Holding Ltd. increased its stake in Bank Julius Baer (Geneva) Ltd. (formerly Société Bancaire Julius Baer SA, Genève) which it had acquired in 1986, from 51 per cent. to 75 per cent. and 100 per cent., respectively. Also in 1997, Julius Baer Holding Ltd. bought Lucerne-based Bank Falck & Co. Both acquisitions were subsequently integrated into the branch network. In 2003, Julius Baer Holding Ltd. sold its brokerage business, Julius Baer Brokerage SA, in order to refocus on wealth management for private clients and institutional investors. In 2005, Julius Baer Holding Ltd. purchased from UBS AG three independent private banks — Ferrier, Lullin & Cie SA, the oldest Geneva private bank dating back to 1795, Ehinger & Armand von Ernst AG with a strong presence in the German-speaking markets, and BDL Banco di Lugano with its sizeable Italian-speaking franchise — as well as GAM, a specialised asset manager.

Following a strategic review conducted during early 2009, the board of directors of Julius Baer Holding Ltd. decided to separate Julius Baer Holding Ltd.'s businesses into two distinct, independent entities, both listed on the SIX Swiss Exchange, being:

- the Company, together with its subsidiaries, comprising Bank Julius Baer & Co. Ltd. as its principal operating entity, as well as certain related ancillary businesses; and
- GAM Holding Ltd., together with its subsidiaries, including Swiss & Global Asset Management (the former Julius Baer Asset Management), the exclusive manager of Julius Baer-branded investment funds, which includes the private label funds business that was formerly part of Julius Baer Holding Ltd.'s "Bank Julius Baer" reporting segment, and its stake in Artio, whose initial public offer was completed in 2009.

In 2009, the Company was established as a subsidiary of Julius Baer Holding Ltd. In order to facilitate the separation of the former Julius Baer Group's private banking and asset management businesses, the private banking business was transferred to the Company and the Shares of the Company were subsequently distributed as a dividend in kind to holders of Julius Baer Holding Ltd.'s registered shares and were listed according to the Main Standard of and traded on the SIX Swiss Exchange. Following this transaction, the Julius Baer Group became the leading pure-play Swiss private banking group. In connection with the separation transaction, the Company entered into an arm's length royalty generating brand licence with GAM Holding Ltd. pursuant to which GAM Holding Ltd. has the exclusive right to produce and manage Julius Baer branded investment fund products worldwide, including private label funds for customised and complex structures. The brand licence is of unlimited duration.

On 15 January 2010, we completed the acquisition of the private bank ING Bank (Switzerland) Ltd. This transaction doubled our presence in Geneva and added booking centre capability in Monaco, and also contributed to an increase in the business volume in Central and Eastern Europe, Russia and other growth markets. Following an intensive period of restructuring, the integration of ING Bank (Switzerland) Ltd. was completed ahead of schedule in May 2010. Also in 2010, Julius Baer completed the acquisition of Milan-based Alpha SIM, a specialised investment manager focused on serving HNWIs, which at the time managed assets of approximately CHF 0.6 billion. In the same year we opened a new office in Rome, and upgraded our operations in Hong Kong by opening a branch in Hong Kong following the receipt of a banking licence from the Hong Kong Monetary Authority.

In May 2011, we acquired 30 per cent. of GPS Investimentos e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda ("GPS"). We paid a total consideration of CHF 52.2 million in cash. We also received options to acquire the remaining 70 per cent. interest in GPS at a predetermined relative price. The options are exercisable two to four years from the initial acquisition date. GPS specialises in discretionary portfolio management and advisory services.

In October 2011, we announced that we had entered into a strategic collaboration agreement with Macquarie Group Ltd. pursuant to which we will refer clients' investment banking transactions to Macquarie and Macquarie will refer clients who require private banking services to Julius Baer. Additionally, we agreed that Macquarie's Asian Private Wealth business would be transferred to Julius Baer. In November 2011, we also opened a representative office in Shanghai, China.

In July 2012, we entered into a strategic partnership with Bank of China Limited. Under the terms of the partnership, Bank of China will refer clients with international private banking needs outside the Chinese Mainland to Julius Baer; and we will refer clients requiring banking services on the Chinese Mainland to Bank of China. We will also cooperate with Bank of China in the distribution of certain products and the research of financial markets as well as in other areas. In addition, Bank of China (Suisse) SA will be integrated into Bank Julius Baer & Co. Ltd.

On 13 August 2012, we announced our agreement to acquire IWM. See "The Acquisition".

## Strengths

We believe that the Julius Baer Group benefits from the following key competitive strengths:

### *Focus on pure-play private banking*

The Julius Baer Group is the leading pure Swiss private banking group, with a market capitalisation of approximately CHF 7 billion and total client assets of CHF 269 billion as at 30 June 2012, which are expected to increase to CHF 341 billion as a result of the Acquisition following completion of the Integration. Our strength in the Swiss private banking industry is based on our 122 years of experience.

### *Advisory excellence*

Our advisory excellence is underpinned by our client-centric approach. We offer best-in-class investment solutions on an open product platform, which allows clients to choose from an unbiased selection of the best providers and investments. We employ a multi-service model, wherein we offer services ranging from custody services to trading.

### *Global reach*

The Julius Baer Group has an extensive global footprint across Europe, Asia and Latin America, which is supported by seven booking centres located in key financial centres. As a result of the Acquisition, eight countries will be added to our existing network, including offices in Bahrain, the Netherlands, India, Ireland, Lebanon, Luxembourg, Panama and Spain. Following the Integration, we will be present in more than 25 countries operating in approximately 50 locations globally.

### *Stability and continuity*

The Julius Baer Group has a solid balance sheet, exceeding all capital requirements. As at 30 June 2012, we had a BIS tier 1 ratio of 21.4 per cent. and a total capital ratio of 23.6 per cent. (under Basel 2.5), well exceeding the minimum requirements. Our capital ratios are expected to remain above target levels at all times throughout the Integration, taking into account all currently known future capital impacts. We have also demonstrated our ability to achieve stable earnings despite the difficult conditions we have experienced as a result of the global financial crisis. We expect to be able to provide our clients and employees with dependability and continuity following the Acquisition. This will be achieved in part through the realignment of our management structure, which will include certain members of the IWM management team.

### *Strong brand*

The Julius Baer brand is a leading premium brand in global wealth management, as demonstrated by the recent awards we have received, including "Best Boutique Private Bank in Asia" (2012, Asian Private Banker), "Best Private Bank in Switzerland" (2011, The Banker, FT Group) and "Outstanding Private Bank – Europe" (2011, Private Banker International). We expect that our brand will be enhanced through our strategic partnership with Bank of America Merrill Lynch. In connection with the Acquisition, we will enter into the Strategic Cooperation Agreement with Merrill Lynch & Co., Inc., pursuant to which Bank of America Merrill Lynch will provide certain products and services to us, including global equity research, product offerings and structured and advisory products. In addition, the Strategic Cooperation Agreement will provide for cross referrals of clients between Bank of America Merrill Lynch and the Julius Baer Group. We also have strategic partnerships with certain regional players, including Bank of China and Macquarie Group Ltd.

### *Entrepreneurial culture*

We believe that our entrepreneurial culture allows us to attract, develop and retain the best professionals across the private banking value chain, contributing to our status as an employer of choice in the private banking industry. Our approach is encapsulated in the motto "Big enough to matter, small enough to care".

## Strategy

Following the separation of Julius Baer Holding Ltd.'s businesses in 2009, which resulted in the transfer of the private banking business to the Company, our strategy is as follows:

### *Pure-play private banking*

Our focus is on private banking, which involves targeting private clients as well as independent asset managers. The Acquisition will aid us in pursuing this strategy as IWM is focused solely on pure-play wealth management. Both the Julius Baer Group and IWM are focused on providing services to HNWIs and UHNWIs.

### *Leverage international platform*

We intend to leverage our global footprint to foster growth in AuM. Our approach is differentiated based on the geographical markets in which we operate. In Switzerland, our focus is on gaining market share and across Europe we plan to selectively expand our product and services offering. We plan to strengthen Asia as our "second home", which will be achieved in part through the Acquisition. Asia is expected to account for approximately half of the AuM in growth markets that we have targeted to be transferred. In other markets, which include Central and Eastern Europe, Latin America, the Middle East and the Indian subcontinent, we plan to pursue a strategy of opportunistic growth.

### *Generate growth*

We intend to generate both organic growth and growth through mergers and acquisitions. We plan to achieve organic growth by generating steady net new money throughout the business cycle as well as through the continued hiring of experienced relationship managers. Our organic growth strategy will be supplemented by selective acquisitions. Our strong balance sheet, which is conservatively managed, and our low-risk business profile provide us with the foundation for growth.

### *Client-centric business model*

We plan to continue to develop our client-centric business model, which is the key differentiating factor of our business. Our open product platform allows clients to choose from an unbiased selection of the best providers and investments. We also intend to continue to innovate in order to offer our clients best-in-class investment solutions. Our client-centric business model is enhanced by our experienced and committed management team.

## Operations

As at 30 June 2012, we had CHF 269 billion in total client assets, of which CHF 179 billion were AuM and CHF 90.1 billion were assets under custody. As at 31 December 2011, we had CHF 258.1 billion in total client assets, including CHF 170.3 billion in AuM and CHF 87.8 billion in assets under custody. We generated CHF 863.1 million and CHF 1,752.7 million in operating income in the six months ended 30 June 2012 and the year ended 31 December 2011, respectively.

Our business can be grouped into two main types of businesses based on the nature of the relationship: (i) Private Clients; and (ii) Independent Asset Managers.

### *Private Clients*

In our Private Clients business, we provide independent advice to clients based on the following five core values:

- a business model dedicated solely to pure-play private banking;
- a distinct value proposition and focus on excellence of service;
- an open and actively managed product platform;
- a client-centric management culture; and
- a strong brand name.

We apply our strategy to all aspects of our financial planning, portfolio management and wealth management services. Understanding the unique parameters of each client's investment objectives is crucial to our Private Clients business. Once investment objectives are set, we formulate a tailored financial strategy and action plan to help the client attain them. We task relationship managers with the responsibility of understanding each client's needs, which involves obtaining detailed personal financial information from each client, and ascertaining the investment needs, preferences and risk appetite of each client. Generally, our advice and the tailored financial strategies we implement target the long-term success of our clients.

Relationship managers also provide value-added services to clients, including wealth & tax planning, credits and global custody. Our Private Clients business is supplemented by our Research unit.

*Research unit*

Our Research unit provides short-term assessments as well as insights into longer-term market developments. Our research includes economic and strategy research, fixed income, equity and commodity research, technical analysis and Julius Baer Next Generation, which produces research on investment opportunities of the future.

*Wealth & Tax Planning*

We offer a comprehensive range of wealth and tax planning services and products, including wealth structuring, tax advice (in Switzerland only), advice on relocation, succession and financial planning and fiduciary services and structures. We analyse clients' financial and non-financial assets and liabilities, as well as their income and expenditure streams, their retirement plans and their insurance contracts. We assist clients in defining their personal and financial goals and needs and in developing and implementing strategies to realise their goals.

*Credits*

We supplement our investment advice by offering our clients the following types of credits: Lombard lending (our primary lending product), special credit structuring, individual credit solutions, mortgages and guarantees. As at 30 June 2012, we had CHF 18,044.3 million of loans on our balance sheet, including CHF 13,085.1 million of non-mortgage loans and CHF 5,036.8 of mortgages.

*Global Custody*

We provide the following global custody services: centralised safekeeping and administration of securities, worldwide settlement of transactions, uniform reporting of individual or consolidated portfolios and securities lending and borrowing.

We are also a leading provider of global custody services in Switzerland and were entrusted with CHF 90.1 billion of assets under custody as at 30 June 2012. The global custody team provides services to pension funds, corporations, family offices and investment funds, including private label funds. Its areas of specialised expertise include the full range of international securities administration, portfolio analysis and tailored reporting.

***Independent Asset Managers***

Our Independent Asset Managers business provides financial services to independent asset managers. Independent asset managers provide asset management and advisory services directly to clients whose transactions are booked on our platforms. The Julius Baer Group's principal service hubs for independent asset managers are located in Zurich, Basel, Geneva, Lugano and Singapore.

Our services for independent asset managers include custody and execution, delivery of daily information on global financial markets, access to most current trading and research recommendations, client reporting, advisory services, and electronic information and communication solutions.

## Employees

As at 30 June 2012, we had 3,649 employees, including 801 relationship managers. In 2011, as part of our goal to remain an employer of choice and to complement the comprehensive training we offer employees through the Julius Baer Academy, we launched a leadership development programme for senior managers which is intended to improve their understanding of how their behaviour and that of others affects the functioning of their organisation.

Also during 2011, in addition to our on-going efforts to contain costs, we announced a reduction of approximately 150 positions in all businesses globally. By relying on attrition and by not filling vacancies, we were able to limit the number of redundancies.

The table below set forth the number of permanent employees as at 30 June 2012 and as at 31 December 2011, 2010 and 2009 as well as a breakdown of those employees geographically.

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| **Geographic area** | **2012** | **2011** | **2010** | **2009** |
| Switzerland | 2,716 | 2,747 | 2,763 | 2,430 |
| Asia-Pacific | 549 | 507 | 454 | 350 |
| Rest of Europe | 282 | 269 | 247 | 180 |
| Americas | 46 | 68 | 68 | 86 |
| Middle East and Africa | 56 | 52 | 46 | 32 |
| Total | 3,649 | 3,643 | 3,578 | 3,078 |

## Licences and Trademarks

Julius Baer Group Ltd. and its subsidiaries, in particular Bank Julius Baer & Co. Ltd., have obtained all software and other licences and other intellectual property rights necessary to conduct their financial services businesses and to run their information technology and financial data systems. Our main intellectual property includes our principal trademarks *"Julius Bär"*, *"Julius Baer"*, *"Bank Julius Bär"*, *"Bank Julius Baer"*, *"Bär"*, *"Baer"*, and *"JB"*, with their spelling and graphic appearance. We strive to protect these trademarks in all markets where we are active. These main trademarks (the names with their spelling as well as their graphic appearance) have been filed and are protected in over 70 countries, including Switzerland and throughout the European Union.

## Material Contracts

On 13 August 2012, we announced that the Company had entered into the Acquisition Agreement with Merrill Lynch & Co., Inc. pursuant to which it agreed to acquire IWM. In connection with the Acquisition, we will enter into the Strategic Cooperation Agreement and the Transitional Services Agreement with Merrill Lynch & Co., Inc., which addresses matters such as cross-referrals of clients, product offerings and global equity research. The Company will enter into a bond purchase agreement with the Syndicate Banks (as defined below) in connection with the issue of the Tier 1 Bonds. See "General Information – Authorisation".

## Investments

In 2011, our principal investments amounted to CHF 88.4 million, including CHF 31.5 million on property and equipment and CHF 56.9 million on intangible assets. CHF 70.9 million (80.3 per cent. of the total amount) was spent in Switzerland. Investments in property and equipment included CHF 6.2 million on bank premises and CHF 25.3 million on other property and equipment. Investments in intangible assets related solely to investments in software (purchased software and project expenses that can be capitalised according to IAS 38).

In 2010, our principal investments (including acquisitions of subsidiaries) amounted to CHF 311.3 million, including CHF 74.1 million on property and equipment and CHF 237.2 million on intangible assets. CHF 271.9 million (87.4 per cent. of the total amount) was spent in Switzerland. Investments in property and equipment included CHF 49.0 million on bank premises (including CHF 41.7 million arising from acquisitions of subsidiaries) and CHF 25.1 million on other property and equipment (including CHF 3.5 million arising from acquisitions of subsidiaries). Investments in intangible assets included CHF 4.3 million of goodwill arising from acquisitions of subsidiaries, CHF 163.0 million relating to investments in customer relationships (all of which arose from acquisitions of subsidiaries) and CHF 69.9 million in investments in software (CHF 1.8 million of which arose from acquisitions of subsidiaries).

In 2009, our principal investments amounted to CHF 77.3 million, including CHF 22.5 million on property and equipment and CHF 54.8 million on intangible assets. CHF 68.8 million (88.8 per cent. of the total amount) was spent in Switzerland. Investments in property and equipment included CHF 9.5 million on bank premises and CHF 13.0 million on other property and equipment (including CHF 0.2 million arising from acquisitions of subsidiaries). Investments in intangible assets included CHF 9.1 million of goodwill arising from acquisitions of subsidiaries, CHF 40.9 million of investments in software and CHF 4.9 million of investments in customer relationships (CHF 1.2 million of which arose from acquisitions of subsidiaries).

We intend to use cash and other liquid assets to fund the investments described above.

## Legal and Arbitration Proceedings

The Company and its subsidiaries are not, and have not been in the previous 12 months, subject to any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Company or the Group is aware, which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability, except for the following:

- In connection with certain private banking client accounts managed by an independent asset manager and previously held with the former New York branch of Bank Julius Baer & Co. Ltd., as custodian and lender, there are civil legal proceedings pending before New York State Court against Bank Julius Baer & Co. Ltd. alleging breach of contract, breach of fiduciary duty, negligence, conversion, unjust enrichment and/or fraud, and unauthorised pledging of client assets arising from and before

2001 when an independent asset manager sent forged statements to certain clients and moved funds from certain clients' accounts, and pledged assets in certain clients' accounts, to cover losses in others. Proceedings before a New York arbitration panel in the same matter involving some of the same claimants were closed in 2010 largely in favour of Bank Julius Baer & Co. Ltd., among others. The arbitration award clearly rejected any allegations of fraud, conspiracy and similar claims. The disputed claims, without interest and unquantifiable claims for punitive damages and counterclaims, initially amounted to approximately USD 105 million. Related proceedings in state court were also largely resolved in favour of Bank Julius Baer & Co. Ltd. Nevertheless, the affected claimants have continued with their proceedings, which include challenging the arbitration award in federal court. Bank Julius Baer & Co. Ltd. is opposing these claims and has taken appropriate steps and measures to defend its interest.

- In 2010 and 2011, litigation was commenced against Bank Julius Baer & Co. Ltd. and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff fraudulent investment schemes. In the direct claims against Bank Julius Baer & Co. Ltd., the liquidators of the Fairfield funds are seeking to recover a total amount of over USD 46 million, of which approximately USD 5 million is claimed in courts of the British Virgin Islands and approximately USD 41 million is claimed 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 Bank Julius Baer in 2010). In addition to the direct claims against Bank Julius Baer & Co. Ltd., the liquidators of the Fairfield funds 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 Bank Julius Baer & Co. Ltd. and its beneficial owners. The combined claims aggregate the damages asserted against all defendants, such that a reliable allocation of the claimed amounts between Bank Julius Baer & Co. Ltd. and the other defendants cannot be made at this time. Finally, the trustee of Madoff's broker-dealer company seeks to recover over USD 37 million in the courts of New York, largely in relation to the same redemption payments which are the subject matter of the claims asserted by the liquidators of the Fairfield funds. As most of the aforementioned litigation remains in the preliminary procedural stages, a meaningful assessment of the potential outcome is not yet possible. Bank Julius Baer & Co. Ltd. is challenging these actions on procedural and substantive grounds and has taken further measures to defend and protect its interests.
- In 2011, Bank Julius Baer & Co. Ltd. was informed by Swiss authorities that U.S. authorities had named it as one of several Swiss banks being investigated in connection with their cross-border private banking services provided to U.S. private clients. Bank Julius Baer & Co. Ltd. is in ongoing, constructive dialogue with U.S. authorities and has cooperated with the U.S. authorities within the confines of applicable law with the aim of reaching a resolution of the U.S. investigation. In parallel, Swiss authorities are in negotiations with U.S. authorities as regards a resolution for the ongoing dispute on tax matters between U.S. authorities and the Swiss financial industry, including as to provision of U.S. taxpayer information by Swiss authorities to U.S. authorities. The Bank, whilst also cooperating with its home regulator FINMA in this matter, is supporting such efforts of the Swiss authorities. In the context of its cooperation in this matter, Bank Julius Baer & Co. Ltd. has provided the U.S. authorities data pertaining to its historical U.S. business. Based on the current stage of such negotiations and cooperation, however, the potential outcome (likelihood and potential content of a resolution) and the financial (any potential settlement amount and other costs) and business impacts are uncertain and currently not reliably assessable.

Our total exposure to these claims cannot be reliably or accurately quantified. We are opposing these claims and have taken appropriate steps and measures to defend our interest. In addition, certain of the foregoing claims are covered by insurance subject to customary exclusions for intentional misconduct (but not gross negligence).

## Property, Plants and Equipment

The table below sets forth the sizes and uses of our properties as well as how they are held (leased/owned) by location.

| **Location** | **Leased/owned** | **Approximate area ($m^2$)** |
|---|---|---|
| **Switzerland** | | |
| ***Zurich*** | | |
| Augustinerhof | Owned | 930 |
| Bahnhofstrasse 36 | Owned | 1,600 |
| Bahnhofstrasse 38 | Owned | 900 |
| Bahnhofstrasse 40 | Leased | 1,632 |
| Hohlstrasse 602 | Owned | 2,966 |
| Hohlstrasse 604/606 | Owned | 3,163 |
| Hohlstrasse 606a | Owned | 10,000 |
| Hohlstrasse 608 | Owned | 7,200 |
| Münzplatz 3 | Owned | 2,812 |
| Nüschelerstrasse 30 | Leased | 848 |
| St. Peterstrasse 10 | Owned | 2,808 |
| Zeugwartgasse 6 | Leased | 80 |
| Nüschelerstrasse 31 | Leased | 580 |
| Morgartenstrasse | Owned | 6,000 |
| Stauffacherquai 42 | Owned | 6,000 |
| Weberstrasse | Owned | 1,000 |
| ***Basel*** | | |
| Freie Strasse 107 | Owned | 1,520 |
| ***Geneva*** | | |
| Rue Pierre-Fatio 7 | Leased | 4,500 |
| Place Camoletti 6 | Leased | 700 |
| Scie | Leased | 2,300 |
| Avenue de Frontenex 30 | Owned | 5,800 |
| ***Lausanne*** | | |
| Rue du Grande-Chêne 7-9 | Leased | 515 |
| Place St. Francois | Leased | 430 |
| ***Lugano*** | | |
| Piazzetta San Carlo 1 | Owned | 3,364 |

| Location | Leased/owned | Approximate area ($m^2$) |
|---|---|---|
| Via Giuseppe Motta 14 | Owned | 8,264 |
| Via Solari 4 | Leased | 674 |
| ***Luzern*** | | |
| Schwanenplatz 2 | Leased | 760 |
| ***Zug*** | | |
| Bundesplatz 9 | Leased | 542 |
| ***Crans-Montana*** | | |
| Rue du Prado | Leased | 500 |
| ***Bern*** | | |
| Bundesgasse 30 | Owned | 1,176 |
| Bankengässli 8 | Leased | 810 |
| ***Brig*** | | |
| Bahnhofstrasse 4 | Leased | 120 |
| ***St. Gallen*** | | |
| Bahnhofstrasse 7 | Leased | 950 |
| ***Verbier*** | | |
| Rue de la Poste 25 | Leased | 140 |
| ***St. Moritz*** | | |
| Via Serlas 23 | Leased | 470 |
| ***Ascona*** | | |
| Via Borgo 1 | Leased | 250 |
| ***Kreuzlingen*** | | |
| Hauptstrasse 66 | Leased | 600 |
| ***Sion*** | | |
| Avenue de la Gare 31 | Leased | 420 |
| **France** | | |
| ***Paris*** | | |
| 17 Cours Edouard VII | Leased | 30 |
| **Monaco** | | |
| ***Monaco*** | | |
| 7, boulevard des Moulins | Leased | 250 |
| 2, Avenue de la Madone | Leased | 150 |
| 1, Avenue des Citronniers | Leased | 800 |
| **Germany** | | |
| ***Frankfurt*** | | |
| An der Welle 1 | Leased | 1,950 |

| Location | Leased/owned | Approximate area ($m^2$) |
|---|---|---|
| ***Düsseldorf*** | | |
| Kasernenstrasse 40 | Leased | 560 |
| ***Hamburg*** | | |
| Neuer Wall 80 | Leased | 720 |
| ***Kiel*** | | |
| Schwedenkai 1 | Leased | 220 |
| ***Stuttgart*** | | |
| Koenigstrasse 43b | Leased | 600 |
| ***Munich*** | | |
| Briennerstrasse 1 | Leased | 200 |
| ***Würzburg*** | | |
| Domstrasse 2 | Leased | 150 |
| **United Kingdom** | | |
| ***London*** | | |
| 64 St. James's Street | Leased | 600 |
| **Channel Islands** | | |
| ***Guernsey*** | | |
| Lefebvre Street | Leased | 1,050 |
| **Italy** | | |
| ***Milan*** | | |
| Corsa di Porta Nuova 3 | Leased | 1,070 |
| ***Rome*** | | |
| Via Ludovisi 35 | Leased | 220 |
| **Turkey** | | |
| ***Istanbul*** | | |
| Maçka Cad. 22/7, Vehbi Bey Apt | Leased | 150 |
| **U.A.E.** | | |
| ***Dubai*** | | |
| Emirates Towers, Level 14 | Leased | 220 |
| DIFC, Gate Village, Building 5 | Leased | 760 |
| ***Abu Dhabi*** | | |
| Bainuna 34th Street | Leased | 720 |
| **Israel** | | |
| ***Tel Aviv*** | | |
| 46 Rothschild Blvd. | Leased | 250 |
| **Cayman Islands** | | |

| Location | Leased/owned | Approximate area ($m^2$) |
|---|---|---|
| ***Grand Cayman*** | | |
| Regatta Office Park, Windward III, Seven Mile Beach | Leased | 720 |
| **Austria** | | |
| ***Vienna*** | | |
| Schottenring 10 | Leased | 161 |
| **Russia** | | |
| ***Moscow*** | | |
| Brusov Pereulok | Leased | 260 |
| **Bahamas** | | |
| ***Nassau*** | | |
| East Bay Street | Leased | 515 |
| **Peru** | | |
| ***Lima*** | | |
| Via Principal 123 | Leased | 200 |
| **Uruguay** | | |
| ***Montevideo*** | | |
| Avda. Gral. Rivera 6329 | Leased | 550 |
| **Chile** | | |
| ***Santiago*** | | |
| Avenida El Bosque Norte | Leased | 220 |
| **Hong Kong** | | |
| ***Hong Kong*** | | |
| 18/F Two Exchange Square | Leased | 1,250 |
| **Indonesia** | | |
| ***Jakarta*** | | |
| JI. Jendral Sudirman Kav. 45-46 | Leased | 220 |
| **Singapore** | | |
| ***Singapore*** | | |
| Asia Square | Leased | 6,500 |
| Harbour Front | Leased | 900 |
| **China** | | |
| ***Shanghai*** | | |
| No. 8 Shi Ji Da Dao | Leased | 220 |
| **Egypt** | | |
| ***Cairo*** | | |

| Location | Leased/owned | Approximate area ($m^2$) |
|---|---|---|
| 3 Abou El Feda Street ............................ | Leased | 270 |

We are not aware of any material environmental issues relating to any of the properties we own or lease.

## Risk Management

For the purposes of this Offering Circular, risk is defined as the product of the probability of a given event occurring and the extent to which its occurrence could potentially result in an adverse deviation from our defined objectives. Risk management constitutes an integral part of our business framework. Our risk management is supported by a number of risk control procedures, which we view as business enablers critical to the management process of the Group. The principal risks to which we are exposed are:

- strategic and business risk;
- credit risk;
- market risk;
- liquidity and financing risk;
- operational risk (including legal risks, compliance and personnel risks); and
- 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 our risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at the 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 our risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties, namely the Chief Risk Officer and the General Counsel. The Chief Risk Officer 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 (excluding legal and compliance risk). He coordinates his activities with the General Counsel, who is responsible for the management and control of legal and compliance risk. In addition, the Chief Risk Officer and the General Counsel coordinate their activities with the Chief Financial Officer, who is responsible for balance sheet management and capital management (*i.e.*, the maintenance of a sound ratio of eligible capital to risk-weighted positions).

The Chief Risk Officer and the General Counsel 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:

### *Chairman's and Risk Committee*

The Chairman's and Risk Committee's 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); and
- 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 of Julius Baer Group Ltd. and/or entities affiliated with it and individuals with whom such entities are closely connected.

### *Audit Committee*

The Audit Committee is responsible for 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 Group's operational risk directives.

The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives.

### *Executive Board*

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

- to formulate policies governing market, liquidity, financing and operational risk in the Group's banking business;
- to allocate risk limits in accordance with those policies; and
- to receive and review reports relating to those risks.

### *Credit Committee*

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

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

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

### Strategic and Business Risk

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 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 into 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 non-compliance with an obligation a counterparty has incurred with Julius Baer Group. Such non-compliance may result in a loss to the Group.

We have a policy of lending to private clients primarily on a collateralised basis. The credit risk resulting from such transactions may arise from lending or from receivables on positions we hold in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, client portfolios are analysed and rated individually, and an advanceable value is assigned based on the quality of the collateral and the portfolio's diversification. Positions are monitored on a daily basis. A large majority of the collateral is also re-valued daily.

In addition, we engage in transactions with banks, brokers and selected institutional clients on an 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. Country limits are set in order to contain the risks potentially arising from country-specific or region specific events.

It is not our policy to engage in corporate lending activities except for collateralised lending to corporate structures linked to our core private banking business.

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

The credit risk breakdown presented in the following tables is calculated before deduction of eligible collateral and according to the Basel II BIS standard approach. Differences between the total amounts and the corresponding balance sheet positions are explained in the section reconciliation of credit risk totals with balance sheet positions.

#### *Credit risk by region*

The following tables present credit risk by region as at 31 December 2011, 2010 and 2009. In the following tables 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 pledger (*i.e.*, the domicile of the issuer of securities which are pledged as collateral) or the domicile of the guarantor.

**As at 31 December 2011**

| | Switzerland | Europe | Americas | Asia/Pacific | Other Countries | Total |
|---|---|---|---|---|---|---|
| | *(CHF in millions)* | | | | | |
| Due from banks | 831 | 6,123 | 213 | 1,214 | 1 | 8,382 |
| Loans | 5,039 | 4,626 | 3,781 | 2,876 | 111 | 16,433 |
| Financial investments available-for-sale | 495 | 9,613 | 1,079 | 881 | 11 | 12,079 |
| Derivative financial instruments | 627 | 726 | 280 | 188 | 3 | 1,824 |
| Contingent liabilities | 138 | 142 | 168 | 38 | 6 | 492 |
| Irrevocable commitments | 48 | 9 | 13 | 9 | - | 79 |
| Securities and repo transactions | 1,187 | 4,839 | 739 | 214 | 3 | 6,982 |
| Total | 8,365 | 26,078 | 6,273 | 5,420 | 135 | 46,271 |

**As at 31 December 2010**

| | Switzerland | Europe | Americas | Asia/Pacific | Other Countries | Total |
|---|---|---|---|---|---|---|
| | *(CHF in millions)* | | | | | |
| Due from banks | 682 | 4,338 | 112 | 1,096 | - | 6,228 |
| Loans | 4,730 | 4,299 | 3,183 | 2,246 | 132 | 14,590 |
| Financial investments available-for-sale | 1,491 | 10,309 | 1,159 | 826 | 11 | 13,796 |
| Derivative financial instruments | 795 | 910 | 363 | 325 | 5 | 2,398 |
| Contingent liabilities | 95 | 240 | 98 | 39 | 5 | 477 |
| Irrevocable commitments | 45 | 2 | - | - | - | 47 |
| Securities and repo transactions | 1,478 | 3,080 | 462 | 300 | 3 | 5,323 |
| Total | 9,316 | 23,178 | 5,377 | 4,832 | 156 | 42,859 |

**As at 31 December 2009**

| | Switzerland | Europe | Americas | Asia/Pacific | Other Countries | Total |
|---|---|---|---|---|---|---|
| | *(CHF in millions)* | | | | | |
| Due from banks | 315 | 3,964 | 174 | 840 | 1 | 5,294 |
| Loans | 3,280 | 3,174 | 2,349 | 1,535 | 107 | 10,445 |
| Financial investments available-for-sale | 1,093 | 11,790 | 1,434 | 567 | 12 | 14,896 |
| Derivative financial instruments | 550 | 688 | 221 | 138 | 7 | 1,604 |
| Contingent liabilities | 65 | 216 | 114 | 25 | 4 | 424 |
| Irrevocable commitments | 16 | 2 | - | - | - | 18 |
| Securities and repo transactions | 1,857 | 3,045 | 692 | 284 | - | 5,878 |

| | As at 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Switzerland | Europe | Americas | Asia/Pacific | Other Countries | Total |
| | (CHF in millions) | | | | | |
| Total | 7,176 | 22,879 | 4,984 | 3,389 | 131 | 38,559 |

### *Credit risk by sector*

The following tables present credit risk by sector as at 31 December 2011, 2010 and 2009. In the following tables 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 pledger (*i.e.*, 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 partially of proprietary positions of the Group which are reported on the balance sheet as financial investments available-for-sale and partially of the portion of the credit collateralised by securities issued by companies outside the financial sector.

| | As at 31 December 2011 | | | | |
|---|---|---|---|---|---|
| | Government Agencies | Financial Institutions | Private Clients | Other | Total |
| | (CHF in millions) | | | | |
| Due from banks | - | 8,382 | - | - | 8,382 |
| Loans | 646 | 3,061 | 9,216 | 3,510 | 16,433 |
| Financial investments available-for-sale | 2,436 | 7,223 | - | 2,420 | 12,079 |
| Derivative financial instruments | 64 | 1,173 | 464 | 123 | 1,824 |
| Contingent liabilities | 9 | 96 | 256 | 131 | 492 |
| Irrevocable commitments | 27 | 14 | 28 | 10 | 79 |
| Securities lending and repo transactions | 1,271 | 4,184 | 134 | 1,393 | 6,982 |
| Total | 4,453 | 24,133 | 10,098 | 7,587 | 46,271 |

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | Government Agencies | Financial Institutions | Private Clients | Other | Total |
| | (CHF in millions) | | | | |
| Due from banks | - | 6,228 | - | - | 6,228 |
| Loans | 939 | 2,656 | 8,824 | 2,711 | 14,590 |
| Financial investments available-for-sale | 4,509 | 7,529 | - | 1,758 | 13,796 |
| Derivative financial instruments | 48 | 1,642 | 579 | 129 | 2,398 |
| Contingent liabilities | 12 | 160 | 214 | 91 | 477 |

| | As at 31 December 2010 | | | | |
|---|---|---|---|---|---|
| | Government Agencies | Financial Institutions | Private Clients | Other | Total |
| Irrevocable commitments | 28 | 1 | 18 | - | 47 |
| Securities lending and repo transactions | 845 | 3,155 | 101 | 1,222 | 5,323 |
| Total | 6,381 | 21,371 | 9,196 | 5,911 | 42,859 |

| | As at 31 December 2009 | | | | |
|---|---|---|---|---|---|
| | Government Agencies | Financial Institutions | Private Clients | Other | Total |
| | | | *(CHF in millions)* | | |
| Due from banks | - | 5,294 | - | - | 5,294 |
| Loans | 453 | 1,919 | 6,075 | 1,998 | 10,445 |
| Financial investments available-for-sale | 3,963 | 8,773 | - | 2,160 | 14,896 |
| Derivative financial instruments | 106 | 904 | 529 | 65 | 1,604 |
| Contingent liabilities | 11 | 80 | 257 | 76 | 424 |
| Irrevocable commitments | 8 | 2 | 7 | 1 | 18 |
| Securities lending and repo transactions | 518 | 4,082 | - | 1,278 | 5,878 |
| Total | 5,059 | 21,054 | 6,868 | 5,578 | 38,559 |

### *Credit risk secured/not secured*

The following tables present credit risk secured/not secured as at 31 December 2011, 2010 and 2009. The collateral pledged to cover Lombard loans, over the counter derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following tables, all of the collateral accepted within the scope of the capital adequacy regulations is disclosed. The haircuts applied to the collateral are based on the regulatory standard haircuts set forth in Basel II.

| | As at 31 December 2011 | | |
|---|---|---|---|
| | Secured by recognised financial collateral | Not secured by recognised financial collateral | Total |
| | | *(CHF in millions)* | |
| Due from banks | 4,072 | 4,310 | 8,382 |
| Loans | 15,717 | 716 | 16,433 |
| Financial investments available-for-sale | - | 12,079 | 12,079 |
| Derivative financial instruments | 878 | 946 | 1,824 |
| Contingent liabilities | 445 | 47 | 492 |
| Irrevocable commitments | 46 | 33 | 79 |
| Securities lending and repo | 6,118 | 864 | 6,982 |

| | As at 31 December 2011 | | |
|---|---|---|---|
| | Secured by recognised financial collateral | Not secured by recognised financial collateral | Total |
| transactions | | | |
| Total | 27,276 | 18,995 | 46,271 |

| | As at 31 December 2010 | | |
|---|---|---|---|
| | Secured by recognised financial collateral | Not secured by recognised financial collateral | Total |
| | | *(CHF in millions)* | |
| Due from banks | 2,109 | 4,119 | 6,228 |
| Loans | 13,496 | 1,094 | 14,590 |
| Financial investments available-for-sale | - | 13,796 | 13,796 |
| Derivative financial instruments | 1,281 | 1,117 | 2,398 |
| Contingent liabilities | 435 | 42 | 477 |
| Irrevocable commitments | 10 | 37 | 47 |
| Securities lending and repo transactions | 4,632 | 691 | 5,323 |
| Total | 21,963 | 20,896 | 42,859 |

| | As at 31 December 2009 | | |
|---|---|---|---|
| | Secured by recognised financial collateral | Not secured by recognised financial collateral | Total |
| | | *(CHF in millions)* | |
| Due from banks | 2,300 | 2,994 | 5,294 |
| Loans | 9,761 | 684 | 10,445 |
| Financial investments available-for-sale | - | 14,896 | 14,896 |
| Derivative financial instruments | 717 | 887 | 1,604 |
| Contingent liabilities | 396 | 28 | 424 |
| Irrevocable commitments | 7 | 11 | 18 |
| Securities lending and repo transactions | 4,779 | 1,099 | 5,878 |
| Total | 17,960 | 20,599 | 38,559 |

### *Credit risk by regulatory risk weightings*

The following tables present credit risk by regulatory risk weightings as defined under Basel II as at 31 December 2011, 2010 and 2009. The allocation of the receivables to the risk weights depends on the type and actual rating of the counterparty or the rating of the issue in the case of financial investments. The collateralised part of receivables (mortgages excluded) is allocated to the 0 per cent. risk weight column, meaning that no capital is required for the respective outstanding amount.

| | As at 31 December 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 per cent. | 20 per cent. | 35 per cent. | 50 per cent. | 75 per cent. | 100 per cent. | 150 per cent. | Total |
| | (CHF in millions) | | | | | | | |
| Due from banks ............ | 4,502 | 3,048 | - | 778 | - | 54 | - | 8,382 |
| Loans ............................ | 11,012 | 5 | 3,787 | 342 | 49 | 1,217 | 21 | 16,433 |
| Financial investments available-for-sale ........... | 1,952 | 4,932 | - | 5,071 | - | 98 | 26 | 12,079 |
| Derivative financial instruments .................... | 885 | 224 | - | 509 | 1 | 205 | - | 1,824 |
| Contingent liabilities...... | 445 | - | - | - | 2 | 45 | - | 492 |
| Irrevocable commitments ................ | 46 | 27 | - | - | 2 | 4 | - | 79 |
| Securities lending and repo transactions............ | 6,118 | 321 | - | 1 | - | 541 | 1 | 6,982 |
| Total ............................. | 24,960 | 8,557 | 3,787 | 6,701 | 54 | 2,164 | 48 | 46,271 |

| | As at 31 December 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 per cent. | 20 per cent. | 35 per cent. | 50 per cent. | 75 per cent. | 100 per cent. | 150 per cent. | Total |
| | | | | (CHF in millions) | | | | |
| Due from banks ............. | 2,444 | 2,667 | - | 1,084 | - | 17 | 16 | 6,228 |
| Loans ............................ | 9,749 | 5 | 2,844 | 627 | 58 | 1,278 | 29 | 14,590 |
| Financial investments available-for-sale ........... | 4,226 | 6,384 | - | 3,018 | - | 71 | 97 | 13,796 |
| Derivative financial instruments .................... | 1,281 | 307 | - | 429 | 2 | 379 | - | 2,398 |
| Contingent liabilities...... | 433 | 2 | - | 3 | 3 | 36 | - | 477 |
| Irrevocable commitments ................. | 10 | 27 | - | - | 1 | 9 | - | 47 |
| Securities lending and repo transactions............ | 4,632 | 222 | - | - | - | 469 | - | 5,323 |
| Total .............................. | 22,775 | 9,614 | 2,844 | 5,161 | 64 | 2,259 | 142 | 42,859 |

| | As at 31 December 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0 per cent. | 20 per cent. | 35 per cent. | 50 per cent. | 75 per cent. | 100 per cent. | 150 per cent. | Total |
| | | | | (CHF in millions) | | | | |
| Due from banks ............. | 2,364 | 2,088 | - | 823 | - | 7 | 12 | 5,294 |
| Loans ............................ | 7,341 | 9 | 1,922 | 150 | 57 | 926 | 40 | 10,445 |
| Financial investments available-for-sale ........... | 3,796 | 8,112 | - | 2,801 | - | 102 | 85 | 14,896 |
| Derivative financial instruments .................... | 717 | 263 | - | 245 | 2 | 377 | - | 1,604 |
| Contingent liabilities...... | 396 | - | - | - | 1 | 27 | - | 424 |
| Irrevocable commitments ................. | 7 | 8 | - | - | 2 | 1 | - | 18 |
| Securities lending and repo transactions............ | 4,779 | 716 | - | - | - | 383 | - | 5,878 |
| Total .............................. | 19,400 | 11,196 | 1,922 | 4,019 | 62 | 1,823 | 137 | 38,559 |

### *Reconciliation of credit risk totals*

The values shown in the above tables are based on the requirements of the standard approach set out in the capital adequacy rules of the Basel Committee on Banking Supervision (Basel II 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 II BIS approach and the corresponding balance sheet and off balance sheet positions.

- The difference in the due from banks position is due to the fact that under IFRS reverse repurchase transactions are recognised on the balance sheet, whereas under the Basel II BIS approach they are disclosed as an off balance sheet item under securities lending and repurchase transactions. The credit risk tables have been adjusted to avoid double counting.

- The difference in the loans position is due to the fact that the collective allowance is not deducted from loans under the Basel II BIS approach.

- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel II BIS approach.

- The total amount of the derivative financial instruments under the Basel II 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 II 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 II 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 II 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*

| | **As at 31 December 2011** | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Balance sheet total | Deviation | Comment |
| | *(CHF in millions)* | | | |
| Due from banks | 8,381.8 | 10,048.1 | (1,666.3) | reverse repurchase transactions deducted; collective allowance of CHF 2.3 million not deducted |
| Loans | 16,433.3 | 16,408.4 | 24.9 | collective allowance not deducted |
| Financial investments available-for-sale | 12,078.9 | 12,168.0 | (89.1) | unrealised gains deducted |
| Derivative financial instruments | 1,824.3 | 2,114.0 | (289.7) | |
| *of which security supplement (add-ons)* | | | 573.9 | according to add-on and netting rules under BIS approach |
| *of which netting of replacement values* | | | (863.6) | impact of netting rules under BIS approach |
| Total | 38,718.3 | 40,738.5 | (2,020.2) | |

| | As at 31 December 2010 | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Balance sheet total | Deviation | Comment |
| | *(CHF in millions)* | | | |
| Due from banks | 6,228.0 | 6,586.6 | (358.6) | reverse repurchase transactions deducted; collective allowance of CHF 6.2 million not deducted |
| Loans | 14,589.7 | 14,570.4 | 19.3 | collective allowance not deducted |
| Financial investments available-for-sale | 13,796.3 | 13,885.1 | (88.8) | unrealised gains deducted |
| Derivative financial instruments | 2,397.8 | 2,713.1 | (315.3) | |
| *of which security supplement (add-ons)* | | | 945.2 | according to add-on and netting rules under BIS approach |
| *of which netting of replacement values* | | | (1,260.5) | impact of netting rules under BIS approach |
| Total | 37,011.8 | 37,755.2 | (743.4) | |

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Balance sheet total | Deviation | Comment |
| | *(CHF in millions)* | | | |
| Due from banks | 5,293.9 | 6,598.2 | (1,304.3) | reverse repurchase transactions deducted; collective allowance of CHF 9.2 million not deducted |
| Loans | 10,445.2 | 10,431.2 | 14.0 | collective allowance not deducted |
| Financial investments available-for-sale | 14,896.2 | 15,011.5 | (115.3) | unrealised gains deducted |
| Derivative financial instruments | 1,604.1 | 1,859.3 | (255.2) | |
| *of which security supplement (add-ons)* | | | 557.9 | according to add-on and netting rules under BIS approach |
| *of which netting of replacement values* | | | (813.1) | impact of netting rules under BIS approach |
| Total | 32,239.4 | 33,900.2 | (1,660.8) | |

### *Comments on off balance sheet positions*

| | As at 31 December 2011 | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Off balance sheet total | Deviation | Comment |
| | *(CHF in millions)* | | | |
| Contingent liabilities | 491.7 | 984.3[(1)] | (492.6) | converted in credit equivalent |
| Irrevocable commitments | 79.5 | 166.5[(1)] | (87.0) | converted in credit equivalent |
| Securities lending and repo transactions | 6,981.9 | 6,515.9 | 466.0 | including risk premium under BIS approach |

Note:

(1) These amounts reflect the maximum payments the Group is committed to making.

| | As at 31 December 2010 | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Off balance sheet total | Deviation | Comment |
| | (CHF in millions) | | | |
| Contingent liabilities............................ | 477.1 | 950.9[1] | (473.8) | converted in credit equivalent |
| Irrevocable commitments ..................... | 47.2 | 111.2[1] | (64.0) | converted in credit equivalent |
| Securities lending and repo transactions.......................................... | 5,322.5 | 4,978.3 | 344.2 | including risk premium under BIS approach |

Note:

(1) These amounts reflect the maximum payments the Group is committed to making.

| | As at 31 December 2009 | | | |
|---|---|---|---|---|
| | Basel II BIS approach | Off balance sheet total | Deviation | Comment |
| | (CHF in millions) | | | |
| Contingent liabilities............................ | 424.1 | 848.3[1] | (424.2) | converted in credit equivalent |
| Irrevocable commitments ..................... | 17.6 | 69.6[1] | (52.0) | converted in credit equivalent |
| Securities lending and repo transactions.......................................... | 5,877.7 | 5,333.4 | 544.3 | including risk premium under BIS approach |

Note:

(1) These amounts reflect the maximum payments the Group is committed to making.

### *Exposure to credit risk by credit quality*

The following tables provide an analysis of our exposure to credit risk by credit quality and contain data from the internal credit supervision system used for the calculation and monitoring of our 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 limits for collateralised credit exposures, which relate mainly to private clients.

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

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with Lombard limits. Derivatives exposures across different products, accounts and counterparties are netted against each other provided an ISDA close-out netting master agreement has been signed.

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | Collateralised | | | Uncollateralised | | |
| | 2011 | 2010 | 2009 | 2011 | 2010 | 2009 |
| | (CHF in millions) | | | | | |
| Neither past due nor impaired | 19,613.9 | 16,613.7 | 12,131.5 | 19,140.7 | 18,795.0 | 20,878.6 |
| Past due but not impaired | 62.5 | 143.5 | - | - | - | - |
| Impaired | 105.7 | 81.8 | 66.9 | 4.0 | 3.6 | 3.5 |
| Total | 19,782.1 | 16,839.0 | 12,198.4 | 19,144.7 | 18.798.6 | 20,882.1 |
| **Neither past due nor impaired** | | | | | | |
| R1 to R3 | 16,080.1 | 13,577.2 | 10,006.6 | 18,236.9 | 18,275.5 | 20,420.4 |
| R4 to R6 (including temporarily unrated) | 3,533.8 | 3,036.5 | 2,124.9 | 903.8 | 519.5 | 458.2 |
| Total | 19,613.9 | 16,613.7 | 12,131.5 | 19,140.7 | 18,795.0 | 20,878.6 |
| **Past due but not impaired** | | | | | | |
| R7 | 62.5 | 143.5 | - | - | - | - |
| Total | 62.5 | 143.5 | - | - | - | - |
| *Collateral held or credit enhancement available* | 70.9 | 223.0 | - | - | - | - |
| **Impaired** | | | | | | |
| R8 | 61.1 | 23.6 | 57.4 | 0.5 | 0.1 | - |
| R9 to R10 | 44.6 | 58.2 | 9.5 | 3.5 | 3.5 | 3.5 |
| Total | 105.7 | 81.8 | 66.9 | 4.0 | 3.6 | 3.5 |
| *Collateral held or credit enhancement available* | 55.6 | 51.9 | 31.8 | - | | - |
| **Allowance for credit losses** | | | | | | |
| Specific allowance for credit losses | 79.5 | 64.0 | 38.8 | 4.0 | 3.6 | 3.5 |
| Collective allowance for credit losses | 26.4 | 21.3 | 14.1 | 2.3 | 6.2 | 9.1 |
| Total | 105.9 | 85.3 | 52.9 | 6.8 | 9.8 | 12.6 |

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 balances in rating classes R1–R6, the balances are being serviced, the fair value of the collateral pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and 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.

### *Maximum exposure to credit risk*

The following table shows our theoretical maximum exposure to credit risk as at 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 gross carrying amount, net of any amounts offset on the balance sheet or any impairment losses recognised.

| | As at 31 December | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| | (CHF in millions) | | |
| Cash (excluding cash on hand) | 4,205.7 | 1,081.9 | 2,770.3 |
| Due from banks | 10,048.1 | 6,586.6 | 6,598.2 |
| Loans | 16,408.4 | 14,570.4 | 10,431.2 |
| Trading assets | 613.3 | 300.9 | 363.3 |
| Derivative financial instruments | 2,114.0 | 2,713.1 | 1,859.3 |
| Financial investments available-for-sale | 12,093.5 | 13,738.1 | 14,841.2 |
| Accrued income | 172.1 | 154.6 | 123.7 |
| Other assets | 9.8 | 6.8 | 5.6 |
| Total | 45,664.9 | 39,152.4 | 36,992.7 |

## Market Risk (Trading Book)

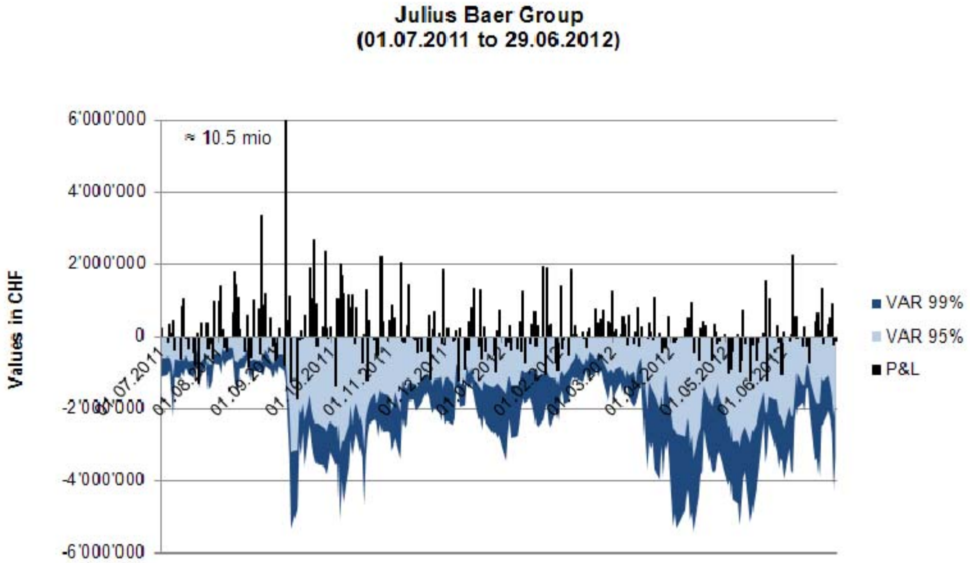
The following definitions are used to separate trading book and banking book activities: the trading book consists of proprietary positions in financial instruments that are held for resale or repurchase and that are usually taken on with the intention of benefiting from expected short-term differences 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.

Market risk measures the potential loss to which we are 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.

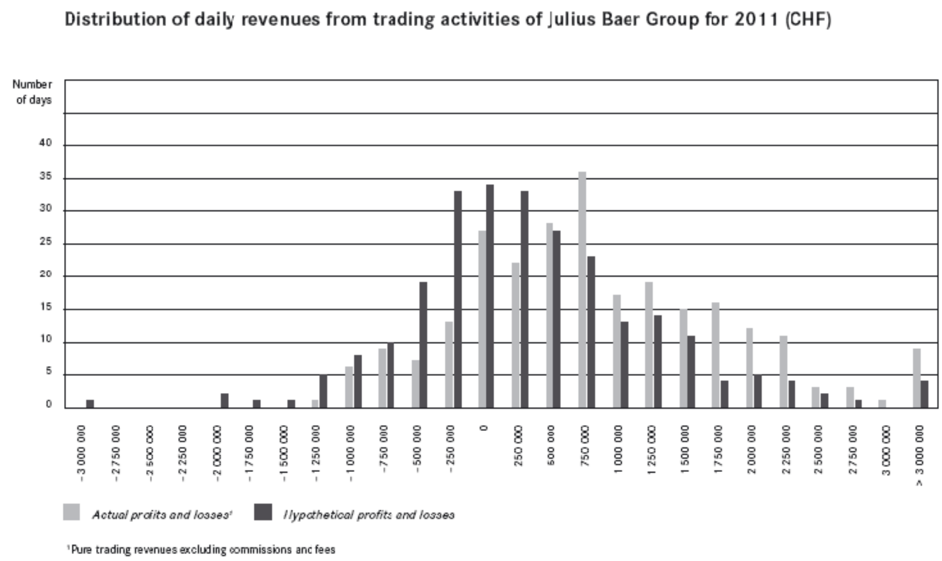
### *Market risk measurement, market risk limitation, back testing and stress testing*

The following methods are used to measure and limit market risk: value at risk ("VaR") limits, sensitivity or concentration limits (delta, vega, basis point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 1.1 million on 30 June 2012 (one-day holding period, 95 per cent. confidence interval). The maximum VaR recorded from 1 July 2011 to 30 June 2012 amounted to CHF 3.4 million; the minimum was CHF 0.3 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 daily gains and losses generated by the trading book with the VaR values calculated each day.

The following chart shows the daily calculations of VaR during the period from 1 July 2011 to 30 June 2012 (at confidence intervals of 95 per cent. and 99 per cent. and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day.




The following chart compares our hypothetical revenues with the actual profit and loss generated by our trading operations for the year ended 31 December 2011. To ensure comparability, pure commission income has been removed from these profit and loss results.




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.

*VaR method and regulatory capital*

For our VaR calculation, we use 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. Our risk management platform and the internal market risk models fulfil the relevant regulatory requirements and have been approved by FINMA for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress based VaR amounted to CHF 2.6 million on 30 June 2012 (for a one-day holding period and a 95 per cent. confidence interval). The maximum stress based VaR recorded during the period from 1 July 2011 to 30 June 2012 amounted to CHF 6.9 million; the minimum was CHF 0.6 million. Under the new FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress based VaR.

Given the limited materiality of the positions concerned, the specific risk of our 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 our trading portfolios as at 31 December 2011, 2010 and 2009:

| | **As at and for the year ended 31 December 2011** | | | |
|---|---|---|---|---|
| | As at 31 December 2011 | Average | Maximum | Minimum |
| | *(CHF in thousands)* | | | |
| Equities | (361) | (1,018) | (3,436) | (206) |
| Interest rates | (442) | (448) | (1,072) | (204) |
| Foreign exchange/precious metals | (1,708) | (728) | (3,287) | (18) |
| Effects of correlation | 921 | - | - | - |
| Total | (1,590) | (1,341) | (3,216) | (318) |

| | **As at and for the year ended 31 December 2010** | | | |
|---|---|---|---|---|
| | As at 31 December 2010 | Average | Maximum | Minimum |
| | *(CHF in thousands)* | | | |
| Equities | (2,423) | (1,327) | (3,307) | (384) |
| Interest rates | (1,073) | (459) | (1,206) | (161) |
| Foreign exchange/precious metals | (262) | (416) | (1,497) | (43) |
| Effects of correlation | 1,442 | - | - | - |
| Total | (2,316) | (1,350) | (3,392) | (393) |

| | As at and for the year ended 31 December 2009 | | | |
|---|---|---|---|---|
| | As at 31 December 2009 | Average | Maximum | Minimum |
| | (CHF in thousands) | | | |
| Equities | (706) | (1,201) | (2,554) | (362) |
| Interest rates | (303) | (706) | (1,024) | (303) |
| Foreign exchange/precious metals | (798) | (783) | (2,106) | (111) |
| Effects of correlation | 661 | - | - | - |
| Total | (1,146) | (1,487) | (3,004) | (626) |

## Liquidity, Financing and Interest Rate Risks in the Banking Book

Financing risk is the risk that we are unable to finance our existing or planned activities on an on-going basis at acceptable prices. Liquidity risk, conversely, is the risk that we are unable to meet its payment obligations when they fall due. The Treasury department of Bank Julius Baer & Co. Ltd. manages our liquidity and financing risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as our central liquidity provider. Currently, our activities are largely financed by client sight deposits. Given our active participation in the interbank market, we would, however, quickly be able to access additional sources of refinancing at any time. The liquidity position of Bank Julius Baer & Co. Ltd., in particular, as well as those of the other Group companies, are monitored and managed daily and exceed the regulatory minimum, as required by our liquidity policy. In addition, payment flow simulations are run on a weekly basis in order to analyse the liquidity of the balance sheet under extreme conditions.

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of our assets and liabilities. One objective measure of this risk can be provided by showing the impact of a positive change of 1 per cent. (+100 basis points) in the entire yield curve in the respective currency.

### *Interest rate sensitivity positions*

The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December 2011, 2010 and 2009. 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 per cent. 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 at the markets in which we carry out most of its activities are currently close to zero.

| | **Interest sensitivity by time bands as at 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **Within 1 month** | **1 to 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
| | *(CHF 1,000 + 100 basis points)* | | | | | |
| **CHF** | | | | | | |
| 2011 | 3,418 | 377 | 25,581 | (19,461) | (49,183) | (39,268) |
| 2010 | 830 | 521 | 21,236 | (25,785) | (38,959) | (42,157) |
| 2009 | 805 | 149 | 16,437 | (35,694) | (8,704) | (27,007) |

| | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| | *(CHF 1,000 + 100 basis points)* | | | | | |
| **USD** | | | | | | |
| 2011 | 38 | 2,062 | 5,917 | (358) | 821 | 8,480 |
| 2010 | 2,222 | (2,619) | 1,584 | (3,539) | (54) | (2,406) |
| 2009 | 2,806 | (3,444) | 1,107 | (6,701) | (232) | (6,464) |
| **EUR** | | | | | | |
| 2011 | 359 | (650) | 3,754 | (10,377) | (1,991) | (8,905) |
| 2010 | 1,089 | (1,597) | (3,631) | (11,037) | (43) | (15,219) |
| 2009 | 1,418 | (3,201) | 5,023 | (8,464) | (268) | (5,492) |
| **Other** | | | | | | |
| 2011 | 130 | (465) | 2,399 | 1,119 | (4,222) | (1,039) |
| 2010 | 987 | (1,185) | (269) | (569) | (2,415) | (3,451) |
| 2009 | (244) | (596) | (95) | 271 | (1,588) | (2,252) |

**Interest sensitivity by time bands as at 31 December**

In addition, the effect on interest earnings resulting from a parallel shift of 1 per cent. 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 re-pricing date to a point 12 months ahead is measured. Based on the assumptions described above, the effect on interest earnings was negative CHF 5.2 million at the end of 2011 (2010: CHF 1.0 million; 2009: negative CHF 7.5 million). Exposures to risks, other than interest rate and liquidity risks, arising from our positions held in the banking book are limited and monitored using nominal and VaR limits. Price risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance sheet management guidelines and are included in our VaR calculations.

### *Hedging interest rate risks*

We accept deposits from customers at both floating and fixed rates and for various periods and either lend 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, we hedge a portion of the interest rate risk associated with cash flows resulting from term deposits or term loans by employing interest rate swaps. The market value of these swaps on 31 December 2011 amounted to a net CHF negative 8.1 million (2010: CHF negative 0.4 million; 2009: CHF negative 7.6 million).

### *Expected remaining maturities of financial assets and liabilities*

The following tables show an analysis of our financial assets and financial liabilities as at 31 December 2011, 2010 and 2009 by remaining expected maturities as at 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 they may be drawn on at any time.

**As at 31 December 2011**

| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|
| | | | *(CHF in millions)* | | | |
| **Financial Assets** | | | | | | |
| Cash | 4,241.5 | - | - | - | - | 4,241.5 |
| Due from banks | - | 9,723.8 | 257.5 | 59.7 | 7.1 | 10,048.1 |
| Loans | - | 11,126.2 | 2,492.6 | 2,061.6 | 728.0 | 16,408.4 |
| Trading assets | 4,920.2 | - | - | - | - | 4,920.2 |
| Derivative financial instruments | 2,114.0 | - | - | - | - | 2,114.0 |
| Financial investments available-for-sale | - | 3,114.0 | 3,234.8 | 4,913.7 | 905.5 | 12,168.0 |
| Accrued income | - | 172.1 | - | - | - | 172.1 |
| Total assets | 11,275.6 | 24,136.2 | 5,984.8 | 7,035.0 | 1,640.6 | 50,072.2 |
| **Financial liabilities** | | | | | | |
| Due to banks | - | 5,651.8 | 5.8 | 12.6 | - | 5,670.2 |
| Due to customers | - | 24,076.1 | 7,590.3 | 3,174.8 | - | 34,841.2 |
| Trading liabilities | 814.1 | - | - | - | - | 814.1 |
| Derivative financial instruments | 2,116.0 | - | - | - | - | 2,116.0 |
| Financial liabilities designated at fair value | 164.9 | 1,225.0 | 852.9 | 1,037.6 | 214.2 | 3,494.6 |
| Debt issued | - | 8.1 | 0.6 | - | 467.1 | 475.8 |
| Accrued expenses | - | 96.9 | - | - | - | 96.9 |
| Total | 3,095.0 | 31,057.8 | 8,449.6 | 4,225.0 | 681.4 | 47,508.8 |

**As at 31 December 2010**

| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|
| | | | *(CHF in millions)* | | | |
| **Financial Assets** | | | | | | |
| Cash | 1,121.3 | - | - | - | - | 1,121.3 |
| Due from banks | - | 6,310.6 | 231.3 | 44.7 | - | 6,586.6 |
| Loans | - | 9,809.5 | 2,446.0 | 1,733.6 | 581.3 | 14,570.4 |
| Trading assets | 3,752.0 | - | - | - | - | 3,752.0 |
| Derivative financial instruments | 2,713.1 | - | - | - | - | 2,713.1 |
| Financial assets designated at fair value | 1,006.1 | - | - | - | - | 1,006.1 |
| Financial investments available-for-sale | - | 5,645.2 | 3,279.1 | 4,323.8 | 637.1 | 13,885.1 |
| Accrued income | - | 154.6 | - | - | - | 154.6 |

| | As at 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
| Total assets | 8,592.5 | 21,919.9 | 5,956.3 | 6,102.1 | 1,218.4 | 43,789.3 |
| **Financial liabilities** | | | | | | |
| Due to banks | - | 4,209.3 | 21.1 | 21.4 | - | 4,251.8 |
| Due to customers | - | 21,616.5 | 5,569.3 | 1,660.9 | - | 28,846.7 |
| Trading liabilities | 800.9 | - | - | - | - | 800.9 |
| Derivative financial instruments | 2,772.4 | - | - | - | - | 2,772.4 |
| Financial liabilities designated at fair value | 1,908.5 | 299.6 | 815.9 | 689.7 | 446.9 | 4,160.6 |
| Debt issued | - | 13.9 | - | 1.3 | 225.0 | 240.2 |
| Accrued expenses | - | 104.3 | - | - | - | 104.3 |
| Total | 5,481.8 | 26,243.6 | 6,406.3 | 2,373.4 | 671.9 | 41,176.9 |

| | As at 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
| | | | *(CHF in millions)* | | | |
| **Financial Assets** | | | | | | |
| Cash | 2,814.8 | - | - | - | - | 2,814.8 |
| Due from banks | - | 6,504.1 | 58.5 | 35.6 | - | 6,598.2 |
| Loans | - | 6,517.5 | 1,887.6 | 1,700.1 | 326.0 | 10,431.2 |
| Trading assets | 2,735.1 | - | - | - | - | 2,735.1 |
| Derivative financial instruments | 1,859.3 | - | - | - | - | 1,859.3 |
| Financial assets designated at fair value | 963.6 | - | - | - | - | 963.6 |
| Financial investments available-for-sale | - | 8,343.2 | 2,742.6 | 3,618.7 | 307.0 | 15,011.5 |
| Total assets | 8,372.7 | 21,364.8 | 4,688.7 | 5,354.4 | 633.0 | 40,413.6 |
| **Financial liabilities** | | | | | | |
| Due to banks | - | 3,961.6 | 0.3 | 0.5 | - | 3,962.4 |
| Due to customers | - | 19,930.4 | 5,730.9 | 1,623.4 | - | 27,284.7 |
| Trading liabilities | 714.9 | - | - | - | - | 714.9 |
| Derivative financial instruments | 1,786.2 | - | - | - | - | 1,786.2 |
| Financial liabilities designated at fair value | 1,074.7 | 1,433.6 | 559.4 | 438.7 | 436.3 | 3,942.7 |
| Debt issued | - | 25.7 | - | 2.8 | 225.0 | 253.5 |
| Total | 3,575.8 | 25,351.3 | 6,290.6 | 2,065.4 | 661.3 | 37,944.4 |

### *Remaining contractual maturities of financial liabilities*

The following table shows an analysis of our financial liabilities by remaining contractual maturities as at 31 December 2011, 2010 and 2009. 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 Group.

| | As at 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
| | *(CHF in millions)* | | | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | 4,533.6 | 923.9 | 203.1 | 2.7 | - | 5,672.3 |
| Due to customers | 30,691.7 | 3,966.5 | 187.3 | - | - | 34,845.5 |
| Trading liabilities | 814.1 | - | - | - | - | 814.1 |
| Derivative financial instruments | 2,116.0 | - | - | - | - | 2,116.0 |
| Financial liabilities designated at fair value | 164.9 | 1,239.1 | 887.2 | 1,038.2 | 214.2 | 3,543.6 |
| Debt issued | - | 8.1 | 20.6 | 71.5 | 467.1 | 567.3 |
| Accrued expenses | - | 96.9 | - | - | - | 96.9 |
| Total | 38,320.3 | 6,243.5 | 1,298.2 | 1,112.4 | 681.4 | 47,665.8 |

| | As at 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
| | *(CHF in millions)* | | | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | 3,224.0 | 810.3 | 211.7 | 9.9 | - | 4,255.9 |
| Due to customers | 24,674.7 | 3,964.9 | 139.4 | 72.5 | - | 28,851.5 |
| Trading liabilities | 800.9 | - | - | - | - | 800.9 |
| Derivative financial instruments | 2,772.4 | - | - | - | - | 2,772.4 |
| Financial liabilities designated at fair value | 1,908.5 | 322.7 | 870.5 | 696.7 | 446.9 | 4,245.3 |
| Debt issued | - | 13.8 | 8.3 | 34.5 | 225.0 | 281.6 |
| Accrued expenses | - | 104.3 | - | - | - | 104.3 |
| Total | 33,380.4 | 5,216.0 | 1,229.9 | 813.6 | 671.9 | 41,311.8 |

| | As at 31 December 2009 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Due within 3 months | Due within 3 to 12 months | Due within 12 months to 5 years | Due after 5 years | Total |
| | | | (CHF in millions) | | | |
| **Financial liabilities** | | | | | | |
| Due to banks | 3,367.3 | 394.3 | 0.3 | 200.6 | - | 3,962.5 |
| Due to customers | 24,847.5 | 2,254.1 | 184.6 | 1.0 | - | 27,287.2 |
| Trading liabilities | 714.9 | - | - | - | - | 714.9 |
| Derivative financial instruments | 1,786.2 | - | - | - | - | 1,786.2 |
| Financial liabilities designated at fair value | 1,074.6 | 1,447.1 | 603.1 | 448.0 | 436.3 | 4,009.1 |
| Debt issued | - | 25.7 | 8.3 | 35.9 | 233.3 | 303.2 |
| Accrued expenses | - | 84.3 | - | - | - | 84.3 |
| Total | 31,790.5 | 4,205.5 | 796.3 | 685.5 | 669.6 | 38,147.4 |

## Operational Risk

### *Operational risk – definition and objectives*

Operational risk is defined as the risk of loss resulting from inadequacies or failures either in internal processes, people and/or systems, or from external events.

The qualitative and quantitative standards defined by the Basel Committee for Banking Supervision are met by the current operational risk management and control set-up.

The objectives of the operational risk management process which have been defined for the purpose of avoiding substantial operational losses which could jeopardise our on-going business activities are the following:

- continuously pursue the further development of the operational risk control framework, thus enabling the organisation to manage and minimise operational risks effectively;
- promote a high level of risk awareness at all levels of the organisation;
- contribute to the enhancement of internal regulations, processes and systems so as to minimise risks;
- ensure that business operations continue to run smoothly in the event of infrastructure breakdowns and catastrophes (Business Continuity Management);
- assess all risk-related issues before new services or products are offered;
- ensure that operational risk reports are submitted to the appropriate levels of management; and
- ensure that shareholders’ equity is correctly allocated to cover operational risks.

In addition, our operational risk control framework covers legal and regulatory risks.

### *Business Continuity Management*

The primary objective of Business Continuity Management (“BCM”) is to anticipate threats and their potential effects on the business activities and to put in place an appropriate crisis organisation structure to ensure that the Group is able to function in the event of such threats becoming reality. BCM includes analysis and planning activities that are designed to ensure that in the event of a catastrophe or a crisis which puts business in jeopardy, the continuity of essential business processes is re-established. The business continuity risks associated with a process are evaluated according to the assumed extent and duration of any disturbance or interruption to which it might be subjected.

The specialised security services support our BCM function in defining continuity management procedures, particularly in the areas of emergency management, protection of people, valuables, facilities and information and the protection of information technology infrastructure and services. The specialised security services are also responsible for implementing measures to reduce these various risks.

***Legal and compliance risk***

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and that such failure results in injury to the third party concerned.

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 we operate.

The General Counsel is responsible for the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the Board of Directors and its Audit Committee. In line with the development of the legal and regulatory environment of the industry we have consistently invested in personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and specialised periodical trainings are set up to ensure on-going education and training to personnel. Beginning in 2009 we initiated a global project with the aim to set up a cross-border framework. Thereby a set of core markets was defined along our business strategy. In addition, country manuals have been established for all major markets. For those markets, permitted and not permitted services were defined. An extensive training was put in place to ensure adequate know-how transfer to the relationship managers. The project was formally completed in June 2012.

***Personnel risk***

Given the structure of the risks to which we are exposed, our major personnel risks lie in our dependence on highly qualified staff and the availability of the necessary management and leadership capabilities. Based on this risk assessment and given the unchanged demand for qualified staff, our efforts are focused on attracting and developing talented professionals and retaining their services for the long term. The quality of our management’s leadership, the attractiveness of our employment conditions, and targeted training and development measures are the critical factors in this regard.

***Insurance***

With the objective of covering or reducing the potential negative financial consequences to which the occurrence of the operational risks described above could lead, we take out insurance cover for specific areas of its business activities in line with general industry practice.

### Reputational risk

Reputational risk describes the risk of events which could do lasting harm to our reputation and thus impair our franchise. Our ability to conduct our business is critically dependent on the reputation we have established over the more than one hundred years of the existence of Bank Julius Baer & Co. Ltd., the Group's principal operating entity. Maintaining our good reputation is therefore vitally important for us, 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 our reputation.

## BUSINESS — IWM

### Overview

IWM is a division of Bank of America Merrill Lynch Global Wealth and Investment Management, a business segment within Bank of America Corporation. The services it provides include asset and wealth management services, brokerage and banking products as well as certain trust services. As at 30 June 2012, IWM had USD 84 billion (CHF 81 billion) in AuM and approximately 2,100 employees, including approximately 525 financial advisers.

The following table sets forth certain financial data for IWM for the six months ended 30 June 2012 and 2011 and for the years ended 31 December 2011 and 2010:

| | Six months ended 30 June | | Year ended 31 December | |
|---|---|---|---|---|
| | 2012 | 2011 | 2011 | 2010 |
| Total revenues *(USD millions)*.......... | 376.0 | 417.4 | 812.4 | 851.4 |
| Net loss *(USD millions)* .................. | (30.4) | (44.1) | (83.1) | (12.7) |

IWM has significant exposure to emerging markets and operates across three regions: (i) Europe, Middle East and Africa ("EMEA"); (ii) Asia Pacific; and (iii) Latin America. The following table sets forth the number of financial advisers for each of the regions in which IWM operates as at 30 June 2012:

| Region | Financial Advisers |
|---|---|
| EMEA ........................................................................................................ | 213 |
| Asia Pacific ................................................................................................ | 218 |
| Latin America.............................................................................................. | 98 |
| Total .......................................................................................................... | 529 |

IWM also has several booking centres to accommodate global and local solutions for its clients. Its main booking centres are Merrill Lynch, Pierce, Fenner & Smith, Inc., a Delaware incorporated U.S. broker-dealer, Merrill Lynch International Bank Limited, an international banking entity located in Ireland, Merrill Lynch Bank (Suisse) S.A., a Swiss banking entity, and FIA Card Services, N.A. and Bank of America, N.A., U.S. banking entities. It also has local brokerage platforms in the United Kingdom, Spain, France, India, Italy and Taiwan, which are available only to advisers.

This section describes the business of IWM as at the date of this Offering Circular. It should not be construed as a description of the assets being acquired by us in the Acquisition. In particular, as part of the Acquisition, we are not acquiring the booking centres located in the United States or Ireland or the brokerage platform in Taiwan. Furthermore, the transfer of AuM to us is subject to clients agreeing to join the Julius Baer Group, which will in turn mainly depend on whether such clients' financial advisers join the Julius Baer Group. See "Risk Factors — Risks Related to the Acquisition — We may not be able to achieve our targets and the expected benefits of the Acquisition if the amount of AuM transferred is less than expected". We also intend to close certain of the offices currently operated by IWM during the Integration.

**Europe, Middle East and Africa**

IWM has been established in the EMEA region since the 1950s, when it opened offices in Geneva and Paris. It now has offices located across 13 countries, including offices in London, Dublin, Jersey, Madrid, Paris, Monaco, Geneva, Zurich, Luxembourg, Amsterdam, Milan, Istanbul, Beirut, Tel Aviv, Manama, Riyadh and Dubai.

The EMEA region is structured into an advisory business and a discretionary business. The advisory business operates across three key geographical markets: (i) Continental Europe; (ii) United Kingdom, Ireland and Israel; and (iii) the Middle East. The discretionary business operates through Merrill Lynch Portfolio Managers, a discretionary asset manager operating in the United Kingdom and the Channel Islands. The EMEA region also includes Merrill Lynch Bank (Suisse) S.A., a fully independent Swiss private bank headquartered in Geneva and Merrill Lynch International Bank Limited, an international bank based in Ireland. The EMEA region's business is also executed through Merrill Lynch, Pierce, Fenner & Smith, Inc., a Delaware incorporated U.S. broker-dealer, as well as local platforms in France, Spain, Italy and the United Kingdom. Merrill Lynch International Bank Limited and Merrill Lynch, Pierce, Fenner & Smith, Inc. are not being acquired by us in the Acquisition.

***Geographical Markets***

*Continental Europe*

In Continental Europe, IWM operates a dual onshore and cross-border business. Its onshore and cross-border activities are conducted through its Amsterdam, Istanbul, Luxembourg, Madrid, Milan, Monaco and Paris offices.

*United Kingdom, Ireland and Israel*

In the United Kingdom, Ireland and Israel, IWM conducts activities through its London, Monaco, Dublin and Tel Aviv offices. The Israel business was transitioned from the Latin America region to the EMEA region in January 2011.

*Middle East*

In the Middle East, IWM operates a dual onshore and offshore business. It has been present in the region since the 1960s. Its onshore activities are conducted through its Beirut, Dubai and Manama offices and its offshore activities are conducted through its London, Geneva and Monaco offices.

***Merrill Lynch Bank (Suisse) S.A.***

Merrill Lynch Bank (Suisse) S.A. is a full service Swiss private bank headquartered in Geneva servicing clients globally and is regulated by FINMA. As well as its Swiss headquarters the bank operates branches in Zurich and Dubai (Dubai International Financial Centre) and has active representative offices in Panama and Singapore.

Merrill Lynch established its first office in Geneva in 1952, combining banking and brokerage services under the same roof. Merrill Lynch then acquired Merrill Lynch Bank (Suisse) S.A. (previously named American Fletcher Bank) in 1984. Today, the bank has more than six decades of experience in providing services to its clients.

Clients of IWM can access Swiss banking solutions either (i) directly through Merrill Lynch Bank (Suisse) S.A. financial advisers (most of whom are serving the EMEA and Latin America regions); or (ii) indirectly through non-Merrill Lynch Bank (Suisse) S.A. financial advisers.

Merrill Lynch Bank (Suisse) S.A.'s private banking services include portfolio management and wealth structuring expertise. The bank operates a fully integrated multi-currency banking platform, including a trading desk that trades foreign exchange, fixed income, precious metals and OTC options. It also executes equities, bonds, mutual funds and derivatives transactions (including structured products) through Merrill Lynch, Pierce, Fenner & Smith, Inc. and other external custodians. Its lending and cash management business includes collateralised fixed-term loans and overdraft, guarantee and fiduciary deposits.

Merrill Lynch Bank (Suisse) S.A.'s business is geared towards the EMEA and Latin America regions, with Europe accounting for approximately half of AuM and revenue and Latin America accounting for approximately one-third. The remaining portion of AuM and revenue is attributable to the Middle East and the Asia Pacific region.

***Merrill Lynch Portfolio Managers Limited***

Merrill Lynch Portfolio Managers Limited provides discretionary investment management services. The majority of its asset base is in the EMEA region, particularly in the United Kingdom. It has locations in London, Jersey, Geneva, Milan, Madrid and Paris. Its clients are sourced *via* two channels, direct and referred. Direct clients are sourced by Merrill Lynch Portfolio Managers Limited and do not necessarily have an existing advisory relationship with IWM. Referred clients are serviced by financial advisers and referred to Merrill Lynch Portfolio Managers.

Merrill Lynch Portfolio Managers Limited offers its discretionary clients two primary portfolio models, (i) bespoke portfolios; and (ii) model portfolios. Bespoke portfolios are generally for clients investing an amount in excess of USD 3 million and include fund and direct holdings. They are delivered through five risk profiles across three currencies. Bespoke portfolios include specialist portfolios, which are a differentiated service for UHNWIs who are investing more than USD 10 million. Specialist portfolios are generally provided on a reverse inquiry basis. Model portfolios are fund-based portfolios that are generally for clients investing an amount between USD 1 million to USD 3 million. They can be based on discretionary asset allocation models or strategic asset allocation models. Discretionary asset allocation models are delivered through five risk profiles across three currencies and also include a UK onshore solution delivered through four risk profiles in pounds sterling. Strategic asset allocation models are delivered through five risk profiles across three currencies and also include a UK onshore solution delivered through five risk profiles in pounds sterling.

***Support Units***

The EMEA region is supported by a dedicated Chief Investment Office unit, as well as by product groups for investment products through International Investment Solutions and for banking products through International Credit & Banking. International Credit & Banking has teams based in London and Geneva that are aligned with the EMEA markets to support and deliver solutions to financial advisers. International Trust & Wealth Structuring is another component of the EMEA region's business. See "— Support Capabilities and Services".

**Asia Pacific**

IWM has been established in Asia since 1960, when it opened a Hong Kong office. It now has offices located across four countries, including offices in Hong Kong, Singapore, Taiwan, Delhi, Mumbai, Kolkata, Chennai and Bangalore.

IWM serves clients in the Asia Pacific region through two business units, each of which has its own operating model: (i) Hong Kong and Singapore; and (ii) India. The Asia Pacific region also has a limited presence in the Taiwan onshore market, although these assets are not being acquired by us in the Acquisition. The Asia Pacific region refocused its business during 2010 and 2011 when it exited Australia and Korea.

***Hong Kong and Singapore Business***

Through its Hong Kong and Singapore business, IWM serves both onshore and offshore clients located in Hong Kong, China, Taiwan, Singapore, Indonesia, Malaysia, Thailand and the Philippines. Hong Kong and Taiwan are currently the largest markets in terms of revenues and client balances, although the highest growth in the future is expected to come from the Chinese and Indonesian markets. The Hong Kong and Singapore business provides a full range of wealth management services, including equities, bonds, mutual funds, structured products, foreign exchange, options and other derivatives, securities based lending, banking (deposits and loans), trusts and life insurance. The business is supported by Merrill Lynch, Pierce, Fenner & Smith, Inc. as a platform for investment products and by Merrill Lynch International Bank Singapore for banking.

***India Business***

IWM is the largest private bank in India based on AuM and was awarded Best Private Bank in India in 2012 by Euromoney. Through its India business, IWM serves clients' onshore investment needs. The India business is focused on five major cities, Delhi, Mumbai, Kolkata, Chennai and Bangalore. It is also increasingly focusing on non-resident Indians (NRIs) and qualified foreign investors (QFIs) globally. Its wealth management offering in India includes equities, bonds, mutual funds and deposits. The business is operated on local platforms, DSP Merrill Lynch and DSP Merrill Lynch Capital.

***Support Units***

The Asia Pacific region is supported by a dedicated Chief Investment Office unit, as well as by product groups for investment products through International Investment Solutions and for banking products through International Credit & Banking. International Credit & Banking specialists based in Hong Kong and Singapore partner with financial advisers across the Asia Pacific region to deliver credit and banking solutions. International Trust & Wealth Structuring another component of the Asia Pacific region's business, particularly in Taiwan, Singapore and Hong Kong. See "— Support Capabilities and Services".

**Latin America**

IWM's business in Latin America has been servicing clients in Latin America for over 40 years. The business was started in Argentina and has expanded to Uruguay, Chile and Panama. IWM has offices in Montevideo, Santiago and Panama City and also operates a financial advisory centre in Montevideo. The Montevideo and Panama City offices are strategically located to serve high growth offshore wealth markets, such as Argentina and Brazil (from Montevideo) and Colombia, Peru, Venezuela and Central America (from Panama City).

The Montevideo, Santiago and Panama City offices offer a full range of wealth management products and services, including equities, bonds, mutual funds, managed accounts, structured products, options and other derivatives, foreign exchange, securities based lending, banking (deposits and loans) and trust services. The financial advisory centre primarily deals with an array of investment and credit products and clients with investable assets of less than USD 500,000. Client assets are allocated across a diverse range of products.

The Latin America region does not have local booking centres. All assets and liabilities are booked through the facilities of Merrill Lynch, Pierce, Fenner & Smith, Inc., Merrill Lynch Bank (Suisse) S.A., Merrill Lynch International Bank Limited, FIA Card Services, N.A., Bank of America, N.A. or Bank of America Rhode Island, N.A. The Latin America region is strictly a cross-border wealth management business.

***Geographical Markets***

*Uruguay*

The Uruguay office covers Argentina and Brazil offshore wealth. These have been both high growth markets. Argentina is the largest market serviced by IWM's Latin America business, as a result of Merrill Lynch's long history in both Argentina and Uruguay. The Buenos Aires office was closed in 2010 and Argentinean clients are now serviced from the Montevideo office. IWM has a significant presence in the Argentina private wealth market, stemming from the strong client relationships it developed when its financial advisers were based in Buenos Aires.

*Panama*

The Panama City office has strong growth opportunities due to its geographic positioning. The focus of the Panama City office is emerging wealth in Colombia, Peru and Central America. It also serves Venezuelan nationals and businesses who have migrated to Panama. Its client base is weighted towards ultra high net worth families.

*Chile*

Chile is a relatively low growth, mature market as a result of the fact that more than half of wealth in Chile is invested locally rather than offshore.

*Financial Advisory Centre*

The financial advisory centre focuses on the mass affluent client segment, primarily dealing with clients with investable assets of less than USD 500,000. It primarily employs conservative investment strategies, using guided mutual fund portfolios. IWM is pursuing an initiative to migrate clients with less than USD 500,000 of investable assets to the financial advisory centre.

***Support Units***

The Latin America region is supported by a dedicated Chief Investment Office unit, as well as product groups for investment products through International Investment Solutions and for banking products through International Credit & Banking. International Credit & Banking specialists based in Montevideo partner with financial advisers across the Latin America region to deliver credit and banking solutions. International Trust & Wealth Structuring is another component of the Latin America region's business, particularly in Mexico, Brazil, Venezuela, Argentina and Colombia. See "— Support Capabilities and Services".

## Support Capabilities and Services

IWM supports the services it provides in the regions through its global platforms, International Investment Solutions, International Credit & Banking, International Trust & Wealth Structuring and the Chief Investment Office.

### Chief Investment Office

The Chief Investment Office produces research and provides advice on strategic and tactical asset allocation. It is composed of three global teams and offers resources specifically tailored to each region. It regularly provides commentaries and guidance on markets and products to financial advisers and clients. The resources provided by the Chief Investment Office include daily, weekly and monthly updates; portfolio strategies by region; regularly updated lists of equity and fixed income investment managers; enhanced investor and focused investor guidelines; and quarterly performance fact sheets.

### International Investment Solutions

International Investment Solutions includes a wide range of asset classes, including equities, fixed income, foreign exchange, mutual funds, market-linked investments, funds and managed solutions and alternative investments.

### International Credit & Banking Group

The International Credit & Banking Group is dedicated to serving the credit and banking needs of international clients by providing tailored credit and banking solutions, and personalised liquidity strategies. International Credit & Banking & Credit Structuring specialists partner with financial advisers globally in fully integrating credit, lending and cash management in the broader wealth management offering. The team delivers credit and banking expertise to help clients monetise their investment portfolios and optimise yield while providing convenient access and security of cash holdings, and solutions to its clients' multi-currency needs. The International Credit & Banking Group also oversees credit and banking product strategy that aligns client needs, market opportunities and product development to build a targeted and competitive offering. The International Credit & Banking Group operates in 19 currencies across a global banking multi-entity structure.

### International Trust & Wealth Structuring

International Trust & Wealth Structuring works with financial advisers to provide trust solutions for clients, including trust administration. The structures used by International Trust & Wealth Structuring include both Cayman and England & Wales trusts.

## Organisational Structure

Client relationships at IWM are managed by financial advisers, who are responsible for client acquisition, sales and on-going relationship management. Financial advisers are supported by client associates, who provide administrative and operational services to clients, including documentation and online enrolment.

At each branch, the director is responsible for revenue growth and expenses as well as maintaining the compliance function, hiring and terminating employees and training and coaching of the sales force. The director is supported by an administrative manager, a client relationship manager and a central business review unit. Administrative managers have compliance related responsibilities, including opening accounts, overseeing client activity and working with the legal and compliance departments and senior management to resolve regulatory issues. Client relationship managers are responsible for meeting client expectations while taking into consideration risk exposures as well as daily supervision and management of local sales. The central business review unit at each branch performs the first level of supervisory review including daily trade reviews, daily e-mail correspondence reviewing and monthly active account reviews.

### Financial Advisers

IWM's relationship managers, called financial advisers, source the vast majority of their client base directly. Direct approaches to clients and clients transferred from previous employers are the key source of new business. Financials advisers' relationships with their clients are supported by specialist coverage and a global suite of products and solutions. See "— Support Capabilities and Services".

At IWM, financial advisers feel entrepreneurial "ownership" of their client relationships. Financial advisers are encouraged to develop differentiated value propositions for clients, including focusing on different products or on a particular type of relationship. Specialisation with regard to specific types of clients (e.g., entrepreneurs, investment bankers, doctors) is also encouraged. Financial advisers also partner with each other and form teams to increase their productivity.

On average, IWM's financial advisers have over 11 years of experience. The following table presents the number of financial advisers by region as at 30 June 2012:

| Region | Financial Advisers |
|---|---|
| EMEA | 213 |
| Asia Pacific | 218 |
| Latin America | 98 |
| Total | 529 |

***Compensation***

Financial advisers earn compensation based on a production grid that compensates them based on a percentage of the revenue they generate. Once a financial adviser exceeds a certain threshold, he/she is entitled to a "step-up" in respect of the production in respect of that threshold. The compensation model varies from region to region. Grid-based compensation is complemented by various incentive programmes depending on the region in which the financial advisers are based. For example, in the EMEA and Asia Pacific regions, financial advisers are entitled to participate in the strategic premium award (SPA) programme, which offers additional incentives for achieving non-revenue targets, such as net new money and net new balances.

In the EMEA region, a new compensation programme was introduced during 2012 to promote adviser portfolio growth and investment in recurring fee-based products. The new compensation programme broadly shifted focus to net new money gathering in comparison with prior years.

# REGULATION

## Switzerland

### General

The banking, securities dealer and collective investment schemes business in Switzerland is regulated by several federal acts and ordinances, the most important of which are the BankA, the Ordinance on Banks and Savings Banks of 17 May 1972, as amended (*Verordnung über die Banken und Sparkassen*) ("BankO"), the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (*Bundesgesetz über die Börsen und den Effektenhandel*) ("SESTA"), the Ordinance on Stock Exchanges and Securities Trading of 2 December 1996, as amended (*Verordnung über die Börsen und den Effektenhandel*) ("SESTO"), the Federal Act on the Financial Market Supervision of 22 June 2007 ("FINMASA"), the Federal Act on Collective Investment Schemes of 23 June 2006, as amended (*Bundesgesetz über die kollektiven Kapitalanlagen*) and the Collective Investment Schemes Ordinance of 22 November 2006, as amended (*Kollektivanlagenverordnung*).

FINMA is the regulatory agency that supervises, among other entities, banks, securities dealers and collective investment schemes in Switzerland. The aim of FINMA is to protect creditors, investors as well as insured persons and to ensure the general functioning of the financial markets in accordance with financial market legislation. It thus helps to reinforce Switzerland's image and competitiveness as a financial centre. FINMA issues instructions, by way of circular letters, to banks, securities dealers, collective investment schemes and auditing firms with respect to the application of specific banking, securities dealers or collective investment schemes regulations or reporting requirements. Among other things, FINMA has the power to grant and withdraw licences, to enforce the relevant Swiss laws and to prescribe the content and format of audit reports. FINMA principally relies on an indirect system of supervision based on regular periodic and additional specific audits carried out by independent and specialised auditors. These specialised auditors must be recognised by FINMA and fulfil certain professional standards. They are required to perform annual audits of banks' and/or securities dealers' financial statements as well as their organisation and conduct of business and assess whether they are in compliance with the relevant provisions of Swiss law, FINMA regulations and self-regulatory guidelines. The audit reports are submitted to both the relevant bank's and/or securities dealer's board of directors and FINMA. If an audit reveals violations of the law or other irregularities, the auditors must inform FINMA immediately in the case of serious violations or irregularities that may jeopardise the security of creditors or, in the case of all other violations or irregularities, if the identified violation or irregularity is not cured within a deadline designated by the auditors.

The SNB is responsible for implementing those parts of the Swiss government's monetary policy that relate to banks and securities dealers, particularly in the area of foreign exchange. It publishes extensive statistical data on a monthly basis. The Federal Act on the Swiss National Bank (*Bundesgesetz über die Schweizerische Nationalbank*), which entered into force on 1 May 2004, grants the SNB certain additional powers such as the supervision of payment and securities settlement systems. Switzerland's banks, according to Swiss banking law, are primarily supervised by FINMA while compliance with liquidity rules is monitored by the SNB. Banks in Switzerland are required to disclose their financial condition and other information relevant to the SNB's regulatory oversight to the SNB.

In addition, the Swiss regulatory framework relies on self regulation through the Swiss Bankers' Association (*Schweizerische Bankiervereinigung*) ("SBA"). The SBA has issued a variety of codes of conduct and guidelines to banks and securities dealers, including an agreement on code of conduct with regard to the exercise of due diligence, guidelines for notes of foreign issuers, guidelines for informing investors about structured products, guidelines concerning asset management mandates, guidelines for the management of country risk and a directive on the independence of financial research.

The Company's principal operating entity, Bank Julius Baer & Co. Ltd., is authorised to conduct banking and securities dealer business activities pursuant to Swiss law. The Julius Baer Group is subject to consolidated supervision by FINMA based on rules and regulations promulgated under Swiss banking law. The Company is required to comply with certain of Switzerland's requirements for banks and securities dealers, including, among other things, with respect to ensuring proper business conduct, capital adequacy, liquidity and risk concentration on a consolidated basis, subject to specific stipulations required by FINMA. The Company is also subject to certain of the reporting obligations of Swiss banks.

## Banking

The banking business in Switzerland is regulated by the BankA, the BankO and related ordinances. To take deposits from the public on a professional basis, a Swiss bank must be licensed by FINMA. Swiss banking regulations contain rules on capital adequacy, liquidity and the management of risk concentrations. Furthermore, banks must ensure the proper conduct of their business operations, organisation, board of directors and management. In addition, FINMA has issued rules regarding compensation schemes and the sale and distribution of financial products.

### *Capital Requirements*

Switzerland applies the internationally agreed capital adequacy rules of the Basel Capital Accord, but the implementation imposes a differentiated and stricter regime than the internationally agreed rules, including a more stringent definition of capital. The Capital Adequacy Ordinance for banks and securities dealers (*Eigenmittelverordnung für Banken und Effektenhändler*) ("CAO (2006)"), which implements Basel II, not only covers credit, market and operational risks, but also risk concentrations. Under the BankA, the BankO and the CAO (2006), a bank must maintain an adequate ratio of capital resources to total risk-weighted assets. This requirement applies to the Company on a consolidated basis. For purposes of complying with Swiss capital requirements, bank regulatory capital is divided into three main categories:

- Tier 1 capital (core capital);
- Tier 2 capital (supplementary capital); and
- Tier 3 capital (additional capital).

Tier 1 capital includes primarily paid-in share capital, reserves (defined to include, among other things, free reserves and the reserve for general banking risks, capital participations of minority shareholders in certain fully-consolidated subsidiaries), retained earnings and audited current-year profits, less anticipated dividends. Among other items, this amount must be reduced by the net long position of the Company, including own shares, accumulated losses, goodwill and uncovered valuation adjustments and uncovered provision requirements of the current year. Tier 1 capital is supplemented, for capital adequacy purposes, by Tier 2 capital, which consists primarily of hybrid capital and subordinated debt instruments. Tier 1 capital is further supplemented by Tier 3 capital, which consists of certain unsecured subordinated debt obligations with payment restrictions. The sum of all three capital tiers, less non-consolidated participations in the banking and finance industries and certain other deductions, equals total bank or regulatory capital.

In accordance with the BankO and the CAO, the Company is required on a consolidated basis and the Company's banking subsidiaries in Switzerland are required on an unconsolidated basis to maintain a minimum regulatory capital-to-risk ratio of 8 per cent., calculated by dividing total eligible capital by total risk-weighted assets. In view of the implementation of Basel III, the Swiss Federal Council published a revised version of the CAO (2006) on 1 June 2012, which is expected to enter into force on 1 January 2013

("CAO (2013)"). Pursuant to the CAO (2013), bank regulatory capital will be composed of the following capital categories:

- Tier 1 capital, consisting of
  - Common Equity Tier 1 (CET 1);
  - Additional Tier 1 (AT 1);
- Tier 2 capital (supplementary capital);
- Capital Conservation Buffer; and
- Countercyclical Buffer.

Common Equity Tier 1 includes paid-in share capital, open reserves, reserves for general banking risks, capital participations of minority shareholders in certain fully-consolidated subsidiaries as well as retained earnings and audited current-year profits less anticipated dividends. Subject to certain conditions, Common Equity Tier 1 may also include share capital relating to preference shares (*Vorzugsaktien*) and to non-voting share capital (*Partizipationskapital*). Common Equity Tier 1 is reduced by, among other things, losses carried forward and losses accrued in the current year, net long position in own shares, goodwill, uncovered valuation adjustments and uncovered provision requirements of the current year and the net long position of participations in companies active in the finance sector included in the consolidation. Additional Tier 1 capital includes participations which do not qualify as Common Equity Tier 1 capital and certain debt instruments, in both cases provided that, among other things, there is no formal maturity date, with repayment being at the discretion of the bank; repayment by the bank is only possible five years after issuance at the earliest and is subject to the approval of FINMA, the capital or debt instrument is subordinated to all unsubordinated claims; any compensation is independent of the creditworthiness of the bank; and, in the case of debt instruments, the instrument will be extinguished upon the reaching of a certain trigger point – the point of non-viability – or by conversion into Common Equity Tier 1 or write-off of the debt. Tier 2 capital includes primarily subordinated debt instruments with a minimum term of five years which are either written-off or converted into Common Equity Tier 1 when the point of non-viability is reached. The Capital Conservation Buffer and the Countercyclical Buffer consist of Common Equity Tier 1.

Under the CAO (2013), the Company will be required to maintain on a consolidated basis a regulatory capital-to-risk ratio ("Total Capital Ratio") of 8 per cent., with 4.5 per cent. being covered by Common Equity Tier 1 capital and 6 per cent. being covered by Tier 1 capital. The Capital Conservation Buffer must be maintained at 2.5 per cent. of risk-weighted assets. In addition, the Swiss Federal Council, upon request of SNB, may require banks to accumulate a Countercyclical Buffer representing up to an additional 2.5 per cent. of risk-weighted assets. FINMA retains its power to increase the minimum capital requirements under the CAO (2013).

Pursuant to the FINMA Circular 2011/2 regarding the Capital Buffer and Capital Planning of Banks, as amended, effective 1 January 2013, the Company falls into a category 3 bank which must have a Total Capital Ratio of at least 12 per cent., a CET 1 ratio of at least 7.8 per cent. and a Tier 1 capital ratio of at least 9.6 per cent.

### *Bank Insolvency*

In accordance with article 25 et seq. of the Swiss Banking Act, the FINMA has broad statutory powers to take measures in relation to a bank if it (i) is over-indebted, (ii) has serious liquidity problems or (iii) fails to fulfil the applicable capital-adequacy provisions after the expiry of a deadline set by the FINMA. If one of these prerequisites is met, the FINMA is authorised to (a) open restructuring proceedings (*Sanierungsverfahren*) or

(b) open liquidation (bankruptcy) proceedings (*Bankenkonkurs*) and/or (c) impose protective measures (*Schutzmassnahmen*). The Swiss Banking Act grants significant discretion to the FINMA. In particular, protective measures that may be imposed by the FINMA include a broad variety of measures, such as bank moratorium (*Stundung*) or a maturity postponement (*Fälligkeitsaufschub*), and may be ordered by the FINMA either on a stand-alone basis or in connection with reorganisation or liquidation proceedings. In a restructuring proceeding, the resolution plan may, among other things, provide for (i) the transfer of the property of the bank or parts thereof with assets and debt, as well as contracts to another entity, and/or (ii) haircuts on obligations owed by the bank and/or (iii) the conversion of the bank's debt or other obligations into equity. An implementing ordinance is pending.

***Liquidity Requirements***

Banks are required to maintain specified measures of primary and secondary liquidity pursuant to the National Bank Act and its implementing ordinance, the National Bank Ordinance (implementing the Ordinance on the National Bank Act of 18 March 2004, *Verordnung zum Bundesgesetz über die Schweizerische Nationalbank*) and the BankA and the BankO.

The minimum reserve requirement ("primary liquidity") is measured by comparing Swiss franc denominated liabilities to Swiss franc denominated liquid assets. For this purpose, liabilities include balances arising from money market instruments maturing within three months, due to banks payable upon demand or maturing within three months (provided that these banks are not themselves subject to minimum reserve requirements), 20 per cent. of all liabilities due to customers in the form of savings and deposits, due to customers payable upon demand or maturing within three months and medium-term bank issued notes maturing within three months. A bank's liquid assets must be maintained at a level of at least 2.5 per cent. of the sum of such liabilities. The Company's principal operating entity, Bank Julius Baer & Co. Ltd., is required to maintain adequate levels of liquidity on an individual basis.

Overall liquidity ("secondary liquidity") is measured by comparing total liquid assets and "easily realisable assets" with "short-term liabilities". Total liquid assets and easily realisable assets must be equal to at least 33 per cent. of short-term liabilities. The Company's banking subsidiary in Switzerland is required to maintain an adequate level of secondary liquidity on an individual basis.

The Company's principal operating entity, Bank Julius Baer & Co. Ltd., is required to file with the SNB monthly statements reflecting its primary liquidity position and quarterly statements reflecting their secondary liquidity position. The Group is also required to maintain adequate liquidity on a consolidated basis. However, the Company is not required to adhere to specific liquidity ratios or to apply any specific liquidity monitoring methodology.

In December 2010, the Basel Committee on Banking Supervision introduced certain liquidity requirements when it published Basel III Liquidity. The framework comprises two liquidity ratios: the LCR and the NSFR. Both ratios are subject to an observation period that began in 2011. Both the LCR and NSFR will become established standards by 2015 and 2018, respectively. During the observation period, both standards are under review by the Basel Committee on Banking Supervision. In 2011, FINMA issued a circular outlining the implementation plan of the new international liquidity standards. During 2012, a national working group will consult and propose new draft legislation, which is expected to become law by 2013. FINMA also introduced test reporting in 2012 for certain institutions, which will become a general reporting requirement for all banks and brokers in 2013. The results of the test reporting will be used to specify the detailed minimum requirements in 2013. The actual requirements are expected to be effective in 2015 (LCR) and 2018 (NSFR), the same as the Basel III Liquidity timeline.

### *Investor Protection*

The rules of the BankA regarding investor protection were amended as at 1 September 2011 in response to the financial crisis. Deposits held in the name of clients, including medium-term bonds (*Kassenobligationen*), are privileged in the case of the insolvency of a bank, up to a maximum amount of CHF 100,000 per client. Funds deposited by pension schemes at a bank are deemed to be deposits of the individual beneficiaries of the scheme and are also privileged up to a maximum amount of CHF 100,000. Banks are required to hold assets covering 125 per cent. of privileged deposits within Switzerland and to join a self-regulatory system of banks which shall guarantee the pay-out of privileged deposits within 20 days after the communication of the insolvency of a bank or the adoption of certain protective measures by FINMA against a bank.

### *Risk Concentration*

Under Swiss banking law, banks are required to manage risk concentration within specific, pre-defined limits, taking into account counterparty risks and risk mitigation instruments. Aggregated and risk-weighted exposures to any single counterparty or group of related counterparties exceeding 10 per cent. of a bank's eligible capital are deemed to be large exposures for regulatory purposes and must be reported to the bank's board of directors, as well as to its auditors. In addition, aggregated and risk-weighted exposures to any single counterparty or group of related counterparties may not exceed 25 per cent. of a bank's eligible capital, and the aggregate of all reported regulatory large exposure positions may not exceed 800 per cent. of a bank's eligible capital. Subject to certain exceptions, exposures exceeding these thresholds must be reported immediately to the relevant bank's auditors and to FINMA, which may require corrective action and impose sanctions, if FINMA deems it appropriate.

The Company must adhere on a consolidated basis and the Company's principal operating entity, Bank Julius Baer & Co. Ltd., must adhere on an unconsolidated basis to these risk concentration rules. However, Bank Julius Baer & Co. Ltd. is entitled to exclude from the 25 per cent. and 800 per cent. limits the risk positions of certain of its affiliated companies, which are deemed to be subject to adequate supervision, and the risk positions in respect of the Company.

### *Supervision of Management and Control*

Swiss banking regulations contain specific approval requirements with respect to the appointment of directors or senior officers of banking companies and notification or approval requirements with respect to significant banking company shareholders. FINMA also imposes a requirement relating to ensuring of proper business conduct.

### *Cross-Border Banking*

In 2010, FINMA published a position paper on legal and reputational risks in cross-border financial services in which it indicated that it will increasingly focus on the conduct of financial institutions engaging in cross-border operations. FINMA expects financial institutions to conduct an assessment of their cross-border financial services operations, focusing on their legal framework and associated risks and further expects them to mitigate any legal and reputational risks. Moreover, FINMA expects each financial institution to implement a service model for each individual target market which, in particular, takes into account foreign supervisory legislation. See "Business — Julius Baer Group — Operational Risk — Legal and compliance risk".

### *Compensation Schemes*

FINMA has issued specific guidelines regarding compensation schemes of companies subject to its supervision as compensation schemes may have an influence on the capital, liquidity and risk positions of those companies. Compensation schemes are the responsibility of the board of directors. The schemes must be transparent and must have a long-term focus. The total compensation must be aligned with the risk policy of the relevant company and may not give incentives to individuals to assume inappropriate risks or give rise to conflicts of interest. Compensation and incentives should be aligned with the long-term results of a company and should be granted based on the criterion of sustainability. To take into account the long-term results, a portion of the compensation under compensation schemes must be deferred for a minimum period of three years. The board of directors is required to issue an annual compensation report.

### *Distribution of Financial Products*

To enhance consumer protection, FINMA has issued a position paper regarding the distribution of financial products. Banks are required to provide their clients with product documentation must provide product descriptions for complex financial products. Before advising a client on financial products, banks should determine whether a transaction is suitable for the client and must issue a warning to clients that wish to purchase financial products on their own initiative. Banks should also disclose any conflicts of interest caused by incentives such as trailer fees and finders' fees.

### *Swiss Banking Client Confidentiality*

Under the BankA, Swiss banks and their entire staffs are obligated to keep confidential the existence of and all aspects of their relationships with customers. The bank client confidentiality laws do not, however, provide protection with respect to criminal offences, including insider trading, money laundering, terrorist financing activities or tax fraud. In particular, Swiss banking client confidentiality laws generally do not prevent the disclosure of information to courts and administrative authorities when banks are asked to testify or produce documents under applicable federal and cantonal rules of civil, criminal or administrative procedure or international judicial assistance.

Swiss tax authorities already have the right to obtain bank information for the purpose of prosecuting tax offences. Such information may also be passed on to authorities in other countries in the context of mutual assistance on legal matters or through the process of administrative assistance under double taxation treaties providing for the exchange of information along the lines of Article 26 of the OECD Model Tax Convention on Income and Capital. In April 2012, the Swiss Federal Council announced that Switzerland may in future also enter into tax information exchange agreements on the basis of the OECD Model Agreement on Exchange of Information on Tax Matters. See "Industry — Swiss Private Banking Market".

## Securities Trading

In addition to banks, FINMA also supervises securities dealers in Switzerland pursuant to the SESTA and the SESTO. The supervision of securities dealers essentially follows the lines of the banking supervision (including Swiss banking secrecy, but excluding the liquidity requirements) as outlined above with slightly amended requirements.

## Money Laundering Law and "Know Your Customer" Rules

FINMA is the supervisory authority of banks, securities dealers and collective investment schemes in relation to the prevention of money laundering. Moreover, FINMA may monitor any Swiss group company of a bank or securities dealer that is supervised by FINMA, at the request of the respective group, with respect to its compliance with the duties regarding the prevention of money laundering.

Swiss legislation relating to money laundering is based on four pillars and comprises a combination of criminal provisions, administrative law and self-regulation rules.

The first pillar consists of criminal provisions regarding money laundering and related offences.

The second pillar consists of the Federal Act on Money Laundering and Terrorism Financing in the Financial Sector of 10 October 1997, as amended (*Bundesgesetz zur Bekämpfung der Geldwäscherei und der Terrorismusfinanzierung im Finanzsektor*) (the "MLA"). The MLA introduced minimum standards of due care to be complied with by professionals in the financial sector (banking and non-banking) and established a system of self-regulation accompanied by state monitoring.

The third pillar consists of the Ordinance of FINMA Concerning the Prevention on Money Laundering and Financing of Terrorism of 8 December 2010 (*Geldwäschereiverordnung-FINMA*) (the "Money Laundering Ordinance FINMA"), which contains more stringent due diligence requirements for banks, securities dealers and collective investment schemes with respect to business relationships and transactions that are deemed to involve higher legal or reputational risks. Moreover, the Money Laundering Ordinance-FINMA requires banks and securities dealers to put in place an electronic transaction supervision scheme that allows them to identify transactions with an increased risk profile.

The fourth pillar consists of the self-regulatory system put in place by the SBA in the form of the Agreement on the Swiss Banks' Code of Conduct with Regard to the Exercise of Due Diligence of 7 April 2008 (*Vereinbarung über die Standesregeln zur Sorgfaltspflicht der Banken*) (the "CDB 08"), which contains the "Know your Customer" rules of Swiss banks and securities dealers. The CDB 08 contains specific rules as to the identification of individuals and legal entities in Switzerland or abroad when establishing a business relationship. A bank or securities dealer is further obliged to ascertain that the customer is the beneficial owner of the assets to be deposited by means of a written statement to be signed by the customer if it has any doubt that such customer beneficially owns the assets.

### Limitations affecting Shareholders and Foreign Control

The BankA provides that any person who directly or indirectly owns 10 per cent. or more of the capital or voting rights of a Swiss bank or securities dealer or otherwise may influence the business activities of such regulated entity in a significant manner, (*Qualifizierte Beteiligung*) (a "Qualified Participation"), must ensure that its influence will not have a negative impact on the business activity of the bank or securities dealer. The direct or indirect acquisition or disposal of a Qualified Participation in a Swiss bank or securities dealer is subject to prior notification of and approval by FINMA. The same requirement applies whenever a Qualified Participation is increased or decreased in such a manner that the thresholds of 20 per cent., 33 per cent. or 50 per cent. of the capital or voting rights of the regulated entity are reached or triggered in either direction.

Furthermore, the BankA and the BankO provide that a Swiss bank must obtain an additional licence and a Swiss securities dealer must obtain an approval from FINMA if they fall under foreign control. A securities dealer or bank is considered to be under foreign control if one or several foreigners directly or indirectly hold significant shareholdings in the Swiss securities dealer or bank that, in the aggregate, exceed 50 per cent. of the voting rights in the securities dealer or bank, or if such foreigners otherwise exert a controlling influence on the securities dealer or bank. The granting of an additional licence or an approval is subject to the requirement of reciprocity. If the Swiss securities dealer or bank falls under the foreign control of a group of companies active in the financial sector, FINMA may require that the group be subject to adequate consolidated supervision by the foreign supervisory authorities (home regulator).

## Other Countries

The Julius Baer Group maintains operations and offers services in countries other than those mentioned above, including, among others, the United Kingdom, Bahamas, Germany, Italy and Austria, and is subject to the local regulations in such countries.

### *European Union*

*Forthcoming legislation*

The European Market Infrastructure Regulation ("EMIR") comes into force at the end of 2012. EMIR will mandate the clearing of all standardised over-the-counter derivative contracts through central counterparties and reporting of over-the-counter derivative contracts to trade repositories. This will consequently increase Julius Baer's regulatory requirements for its operations in the European Union.

The EU Council adopted a regulation on short selling and certain aspects of credit default swaps, which is now in the rule-making phase. The regulation will implement the Commission's plans for an EU-wide regulatory regime for short selling requiring greater transparency. The regulation will be effective from 1 November 2012. Separately, certain EU member states currently have their own short selling restrictions.

*Legislative proposals*

In 2011, the European Commission introduced many important legislative proposals, including a review of the MiFID II and the Capital Requirements Directive IV ("CRD IV").

MiFID II includes a revised EU regulatory framework for the provision of investment services and trading in financial instruments. A number of substantial reforms are proposed, including significantly increased regulatory requirements for non-EU firms (such as Julius Baer) in order to provide certain financial services in the European Union (where such provision may become subject to cross-border passporting requirements). The proposals are now being considered by EU legislators, with political agreement expected in the first half of 2013. The EU Commission's proposed text also proposes a ban on independent advisers and portfolio managers from making or receiving third-party payments or other monetary gains, however, the latest EU Council compromise text proposes a relaxation of this, and, as such, it is uncertain whether these proposals will become law. Certain EU member states have, however, already taken similar steps in this area. In the United Kingdom, the FSA has introduced new rules (effective from 31 December 2012) which will impact on the distribution of retail investment products to clients within the United Kingdom (known as the "Retail Distribution Review"). The rules include provisions to address the potential for product and remuneration bias. Firms giving investment advice may only be remunerated for the specific investment advice given and will be required to set their own adviser charges, which they must agree with their clients. In addition, firms must meet new standards on how these charges are determined and operate. Moreover, commission bias is expected to end as a result of a ban on product provider commission being paid to investment advisers, which will prevent investment advisers from automatically recommending products that pay commission. Similar rules may be implemented by other EU member states in the future, although, currently, the FSA rules appear to go further than the EU Commission's proposals on commission bias under MiFID II.

CRD IV will be used to implement the main Basel III reforms in the European Union. These reforms include measures concerning the quality and quantity of capital, capital buffers, counterparty credit risk and new leverage and liquidity ratios, In addition, it is anticipated that CRD IV will also address issues not directly relating to Basel III, including provisions on the remuneration of individuals. The directive was due to come into force on 1 January 2013, however, industry bodies have raised doubts as to whether this deadline is realistic.

In September 2011, the European Commission published a legislative proposal for a financial transaction tax in the 27 EU member states. If implemented, EU member states would be required to tax a variety of financial transactions at minimum rates of 0.1 per cent. for the trading of bonds and shares and 0.01 per cent. for derivative products. In addition, a number of Member States have proposed or implemented bank levies in order to ensure fair burden sharing and create incentives to contain systemic risks, including France, Germany and the United Kingdom. In 2011, the European Commission also introduced legislative proposals on the Market Abuse Directive and the Credit Rating Agencies Regulation III. Consultations on secondary legislation on the Alternative Investment Fund Managers Directive have also continued.

In June 2012, the European Commission published a legislative proposal for a directive establishing a framework for the recovery and resolution of credit institutions and investment firms (known as the "Bank Crisis Management Directive"). The framework will give national regulators wide-ranging powers to intervene where an entity is likely to fail in order to avoid adverse effects on wider financial stability. The directive will also outline a set of bank resolution tools to likely include bridge bank and debt write-down (bail-in) solutions. National regulators will be given powers to direct entities to remove any barriers to resolvability that they identify in advance. Affected entities will also be required to have recovery plans approved by national regulators. Recovery plans will set out actions to be taken to return their financial condition to normal following a significant deterioration.

On 22 June 2012, the European Commission published an updated memorandum on an EU banking union originally published on 6 June 2012. In the updated memorandum, the European Commission announced that it is considering bringing forward the proposals for implementing the banking union as early as autumn 2012. These proposals would cover the introduction of more integrated and direct banking supervision at the EU level, a single EU deposit guarantee scheme and a single EU resolution fund.

On 3 July 2012, the European Commission published its legislative proposal for regulation on packaged retail investment products (PRIPs) to address concerns relating to the way they are marketed and sold to retail investors. The proposal includes introducing selling rules and providing retail investors with a key information document containing certain disclosures. If such a proposal were to go ahead, it is anticipated the regulation could be in effect by the end of 2014.

In November 2012, the European Commission is expected to make a proposal for a fourth Money Laundering Directive making certain amendments to the third Money Laundering Directive (which provides provisions against the risk of money laundering and terrorist financing).

# SUMMARY OF THE ACQUISITION AGREEMENT, THE STRATEGIC COOPERATION AGREEMENT AND THE TRANSITIONAL SERVICES AGREEMENT

As described under “The Acquisition — Overview”, on 13 August 2012, we announced our agreement to acquire IWM from Bank of America Merrill Lynch. The parties to the Acquisition Agreement are the Company and Merrill Lynch & Co., Inc. Set forth below is a summary of the material provisions of the Acquisition Agreement, the Strategic Cooperation Agreement and the Transitional Services Agreement.

## Acquisition Agreement

### Consideration

The consideration payable by the Company to Merrill Lynch & Co., Inc. under the Acquisition Agreement will be calculated on the basis of the net asset value of the companies and businesses that are transferred and the value of the AuM that are held by Merrill Lynch & Co., Inc. and that are transferred to the Company pursuant to the Acquisition Agreement. The Company will pay the net asset value of the companies and businesses that transfer plus 1.2 per cent. of the value of the AuM. The consideration will be payable, in the case of the net asset value, as and when the companies and businesses to which the net asset value is attributable are transferred and, in the case of the AuM, as and when the AuM are actually transferred to the Company. It is currently anticipated that up to CHF 72 billion of AuM will be transferred to the Company, which would result in a total consideration payable by the Company to Merrill Lynch & Co., Inc., in respect of transferred AuM, of CHF 864 million. If more than CHF 72 billion of AuM is transferred to the Company, then the total consideration payable by the Company will increase accordingly. Assuming that the level of AuM transferred is within the range of CHF 57 billion to CHF 72 billion, the consideration payable by the Company to Merrill Lynch & Co., Inc., in respect of transferring AuM, would be in the range of CHF 684 million to CHF 864 million.

Merrill Lynch Bank (Suisse) S.A., together with its AuM, which were approximately CHF 11 billion as at 30 June 2012, will be transferred to the Company after Principal Completion. There will be a staggered transfer of the other companies, businesses and client relationships to the Company, the timing for which will be dictated by the timing of the receipt of certain regulatory and anti-trust approvals in each jurisdiction and the steps both parties need to take to prepare the businesses for transfer and integration.

There are certain price adjustments which protect the Company in the event of attrition in the AuM of clients of Merrill Lynch Bank (Suisse) S.A. in the 12 months after Principal Completion.

The consideration payable by the Company to Merrill Lynch & Co., Inc. at Principal Completion will be paid in cash. The consideration payable thereafter shall be paid 50 per cent. in cash and 50 per cent. in Shares in the Company until the earlier of: (i) the number of Shares issued by the Company to Merrill Lynch & Co., Inc. as part of the consideration reaches a cumulative value of USD 250 million (based on a fixed reference share price of USD 36.0102 calculated with reference to the volume weighted average price for the 20 trading day period ending on the date of the Acquisition Agreement and the USD:CHF exchange rate prevailing on the same day), subject to a customary adjustment multiple in the case of dilution events, including the Rights Offering (such adjustment multiple to be agreed between the parties at the time or, failing such agreement, to be determined by an independent expert); or (ii) the number of Shares held by Merrill Lynch & Co., Inc. (either directly or beneficially) having reached 5 per cent. (less one ordinary share) of the issued share capital of the Company from time to time (including following completion of the Rights Offering). Thereafter, any consideration payable by the Company to Merrill Lynch & Co., Inc. will be paid in cash.

Any shares in the Company that are issued to Merrill Lynch & Co., Inc. or its affiliates as part of the consideration payable under the Acquisition Agreement shall be subject to a lock-up, subject to certain exceptions. The lock-up period will be from the date on which Merrill Lynch & Co., Inc. or any of its affiliates first receives shares in the Company, to the earlier of the date falling: (i) 12 months after the date on which the cumulative value of any shares in the Company held by Merrill Lynch & Co., Inc. or any of its affiliates reaches USD 125 million (based on the fixed reference share price of USD 36.0102, subject to a customary adjustment multiple in the case of dilution events, including the Rights Offering); and (ii) 18 months after the date that Merrill Lynch & Co., Inc. or any of its affiliates first receives any shares in the Company pursuant to the Acquisition Agreement.

### Escrow Arrangements

At Principal Completion, the Company will pay into an escrow account an amount to be calculated on the basis of the AuM still to be transferred to the Company after Principal Completion based on an assumed transfer of CHF 72 billion. The amount will be paid into the escrow account in shares in the Company to the value of USD 250 million (based on the fixed reference share price of USD 36.0102, subject to a customary adjustment multiple in the case of dilution events, including the Offering) and the remainder in cash. The cash and shares held in escrow will be used to satisfy the purchase price in respect of the remaining companies, businesses and client relationships as they transfer to the Company. Any remaining amounts held in the escrow account after completion has occurred in respect of all the companies, businesses that are due to occur (i.e., those that have not been excluded, see "— Termination" below) and client relationships have transferred to the Company and following the payment of any interest that is due to Merrill Lynch & Co., Inc. will be released to the Company. Any excess amounts in the escrow account would primarily be due to a lower level of AuM transferring to the Company than expected.

In addition, and as set out below under "— Employees", Merrill Lynch & Co., Inc. will pay USD 125 million into a separate escrow account to cover certain separation costs incurred by either party in implementing the transactions contemplated in the Acquisition Agreement, including in relation to any employee-related restructuring costs.

### Sale Structure

The following companies and businesses are to be transferred under the Acquisition Agreement:

- in Bahrain, the IWM business of Merrill Lynch International Bank Limited (Bahrain Branch);
- in the Cayman Islands, the trust mandates of the IWM business of Merrill Lynch Bank and Trust Company (Cayman) Limited;
- in Chile, the shares in Merrill Lynch Chile S.A.;
- in France, the shares in Merrill Lynch, Pierce, Fenner & Smith S.A.S. and the IWM business of Merrill Lynch International Bank Limited (Paris Branch);
- in Hong Kong, the IWM business of Merrill Lynch (Asia Pacific) Limited;
- in India, the IWM business of DSP Merrill Lynch Limited (excluding its brokerage services) and DSP Merrill Lynch Capital Limited (subject to regulatory approval, it is currently intended that the IWM business of DSP Merrill Lynch Limited (excluding its brokerage services) and DSP Merrill Lynch Capital Limited will first be transferred to Banc of America Securities (India) Private Limited and that the shares in Banc of America Securities (India) Private Limited will then be transferred to the Company); and the shares in DSP Merrill Lynch Trust Services Limited;
- in Ireland, the IWM business of Merrill Lynch International Bank Limited;

- in the Isle of Man, the trust mandates of the IWM business of Merrill Lynch Bank and Trust Company (Cayman) Limited (Isle of Man Branch);
- in Israel, the IWM business of Merrill Lynch Israel Ltd.;
- in Italy, the IWM business of Merrill Lynch International Bank Limited (Milan Branch);
- in Jersey, the IWM business of Merrill Lynch Portfolio Managers (Channel Islands) Limited;
- in Lebanon, the shares in Merrill Lynch, Pierce, Fenner & Smith (Middle East) S.A.L.;
- in Luxembourg, the shares in Merrill Lynch (Luxembourg) S.à.r.l.;
- in Monaco, the shares in Merrill Lynch S.A.M.;
- in the Netherlands, the IWM business of Merrill Lynch International Bank Limited (Amsterdam Branch);
- in New Zealand, the trust mandates of the IWM business of Merrill Lynch Corporate (New Zealand) Limited;
- in Panama, the IWM business of Merrill Lynch International and Co. C.V (Panama Branch);
- in Singapore, the IWM business of Merrill Lynch International Bank Limited (Merchant Bank) and the trust mandates of the IWM business of Merrill Lynch Bank and Trust Company (Cayman) Limited (Singapore Branch);
- in Spain, the shares in Merrill Lynch Gestion S.G.I.I.C., S.A., the shares in Merrill Lynch Española Agencia de Valores, S.A. and the IWM business of Merrill Lynch International Bank Limited (Madrid Branch);
- in Switzerland, the shares in Merrill Lynch Bank (Suisse) S.A. (and its Zurich and Dubai International Finance Centre branches, and Representative Offices in Bahrain, Dubai, Hong Kong, the Netherlands, Panama, Singapore, the United Kingdom and Uruguay) and the trust mandates of the IWM business of Merrill Lynch Trust Services S.A.;
- in the United Arab Emirates, the IWM business of Merrill Lynch International and Co. C.V. (Dubai Branch);
- in the United Kingdom, the shares in Merrill Lynch Portfolio Managers Limited (and its Paris branch) and the IWM business of Merrill Lynch International Bank Limited (London Branch);
- in the United States of America, the IWM business of Merrill Lynch, Pierce, Fenner & Smith, Inc.; and
- in Uruguay, the shares in Merrill Lynch (Montevideo) S.A. and the shares in Institución Financiera Externa Merrill Lynch Bank (Uruguay) S.A.

### Separation

Prior to Principal Completion, a separation committee, which will be comprised of an equal number of nominees from the management team of the Company and Merrill Lynch & Co., Inc. and which will be responsible for separating the companies and businesses acquired by the Company pursuant to the Acquisition Agreement, will determine how the companies and businesses will transfer and set a target date for the transfer of each company and business to the Company.

As part of the separation planning process, the Company will seek to continue the offering currently available to clients and to continue servicing clients as at present. Accordingly, in relation to the transfer of businesses and financial advisers, the Company will need to establish new entities and obtain new regulatory licences in certain jurisdictions. Save in respect of the AuM held by Merrill Lynch Bank (Suisse) S.A. (which will remain on the current Merrill Lynch Bank (Suisse) S.A. platform) and the AuM of the business in India, the Company will receive AuM onto its existing platforms, some of which will be upgraded accordingly. In India, it is currently intended that Merrill Lynch & Co., Inc. will transfer the business to be sold to an appropriately licensed and operationally stand-alone subsidiary (Banc of America Securities (India) Private Limited), which the Company will acquire.

The Company is required to use all reasonable endeavours to ensure that the agreed target date for the transfer of each company and business to the Company is met, and Merrill Lynch & Co., Inc. will use all reasonable endeavours to assist the Company in this process. The agreed target dates for all jurisdictions must be within 18 months of Principal Completion (other than India where the agreed target date must be within 24 months of Principal Completion).

To the extent that completion for a particular company or business has not occurred by the date falling three months after the agreed target date for that particular company or business, the Company will release from the escrow account, or if the funds in the escrow account are not sufficient, shall pay, or procure the payment of, to Merrill Lynch & Co., Inc., a certain amount, in cash (based on a fractional proportion of the 1.2 per cent. of the estimated AuM for that company or business). Any such payments will be regarded as a prepayment of, and will be netted off against, the amount to be paid by the Company to Merrill Lynch & Co., Inc. to the extent that such AuM are subsequently transferred to the Company. If completion in respect of a particular client's AuM for which a prepayment has been made does not occur by the date which is six months after the Longstop Date, Merrill Lynch & Co., Inc. shall be entitled to retain the prepayment amount in respect of that client's AuM.

### Conditions to Closing

The obligation on the part of each of the Company and Merrill Lynch & Co., Inc. to proceed to Principal Completion and complete the transactions contemplated in the Acquisition Agreement is conditional on the following minimum conditions having been fulfilled or waived on or before the unconditional date of 10 June 2013 (or such other later date as the parties may agree):

- FINMA having approved the completion of the transactions contemplated by the Acquisition Agreement, and, to the extent that the approval is subject to conditions, such conditions being on terms acceptable to each of the Company and Merrill Lynch & Co., Inc. acting reasonably;
- FINRA having approved each clearing agreement entered into by a company being transferred to the Company or to be entered into by the Company or one of its affiliates and/or approved all amendments to each clearing agreement, save in respect of the clearing agreement to be entered into by the entity which will acquire the Bahrain business. Such entity has not yet been established or identified by the Company;
- FINRA not having required any further approvals, or imposed any requirements or conditions that would have a material impact on the Company's ability to complete the transactions contemplated in the Acquisition Agreement, or that would have a material adverse impact on the business of the companies and businesses that are transferring to the Company taken as a whole;
- certain conditions having been fulfilled in respect of the share certificates of Merrill Lynch Bank (Suisse) S.A. which are currently missing, such conditions including that the certificates are located or court proceedings are commenced in Switzerland to allow new certificates to be issued;

- certain regulatory conditions having been fulfilled in respect of the transfer of the shares and businesses relating to the principal jurisdictions, being Hong Kong, Ireland, Singapore, Switzerland, the United Kingdom and Uruguay;
- the shareholders of the Company having approved the increase in the share capital of the Company required for the Offering and the issue of shares in the Company to Merrill Lynch & Co., Inc. as part of the consideration;
- the Offering having completed or the Company having entered into alternative financing arrangements and in either case, funding under such arrangements having become available;
- the Company and Merrill Lynch & Co., Inc. having agreed the form of certain ancillary documents, including certain escrow agreements, a separation plan and a transitional services agreement (as described below under "— Transitional Services Agreement"), to be entered into on or prior to the date of Principal Completion, as well as a strategic cooperation agreement (as described below under "— Strategic Cooperation Agreement"); and
- no material adverse effect having occurred between the date of the Acquisition Agreement and the date on which the other minimum conditions outlined above have been fulfilled or waived.

In addition, the obligation of both the Company and Merrill Lynch & Co., Inc. to proceed to completion in any jurisdiction following Principal Completion (each a "Subsequent Completion") or interim transfer in respect of any other jurisdiction, being all jurisdictions where there are companies or businesses transferring to the Company other than the principal jurisdictions listed above, and to complete the transactions contemplated in the Acquisition Agreement to occur at such Subsequent Completion or interim transfer in respect of the shares, businesses or client relationships to be transferred, as the case may be, is conditional on the satisfaction of certain additional regulatory and anti-trust conditions relating to those jurisdictions.

### Termination

Either the Company or Merrill Lynch & Co., Inc. may terminate the Acquisition Agreement if any of the minimum conditions (as set out above under "— Conditions to Closing") have not been satisfied or waived, or any of the minimum conditions become incapable of satisfaction, in each case on or prior to the unconditional date, being 10 June 2013 (or such later date as the parties may agree).

Either the Company or Merrill Lynch & Co., Inc. may exclude such company or business (or part thereof, including any client relationship), from the Acquisition if the relevant conditions for a specific jurisdiction, such conditions covering relevant regulatory and anti-trust approvals, have not been fulfilled on or before the Longstop Date (as defined below), or if the applicable completion of the company or business has not occurred. No consideration will be payable by the Company for a company, business or client relationship to the extent such company, business or client relationship has been excluded. The "Longstop Date" is the later of: (i) the second anniversary of Principal Completion; and (ii) in respect of a jurisdiction where completion occurs later than 18 months following Principal Completion, the date which is six calendar months following such completion (provided such completion occurs before the second anniversary of Principal Completion), or such later date as the parties may agree.

### Covenants

Subject to certain customary restrictions, Merrill Lynch & Co., Inc. has agreed to procure that it will, except with the consent of the Company (such consent not to be unreasonably withheld or delayed):

- carry on the business of the companies and businesses that are transferring to the Company pursuant to the terms of the Acquisition Agreement as a going concern and in the ordinary and usual course of business;
- use reasonable endeavours to preserve and protect the relationship of the companies and businesses that are transferring to the Company pursuant to the terms of the Acquisition Agreement and preserve the goodwill of its clients;
- continue to service and properly administer all client relationships in a manner consistent with past practice;
- continue to seek and solicit new clients;
- maintain the regulatory capital of the companies transferring to the Company pursuant to the terms of the Acquisition Agreement at or above the level required by applicable law;
- maintain open, cooperative and transparent relations with regulatory authorities for the purpose of facilitating the transfer of the companies, businesses or client relationships transferring to the Company pursuant to the terms of the Acquisition Agreement; and
- maintain in force insurance policies in all material respects on the same terms and similar level of cover prevailing at the date of the Acquisition Agreement for the benefit of the Companies and the Businesses,

at all times from the date of the Acquisition Agreement through until the earlier of: (i) the date on which the relevant shares or business is transferred to the Company; and (ii) the Longstop Date.

### Non-Compete / Non-Solicit

Subject to certain exceptions and limitations, Merrill Lynch & Co., Inc. has agreed that it shall not, and shall procure that none of its affiliates shall, from the date of the Acquisition Agreement until the date falling 36 months after Principal Completion, directly or indirectly carry on, or be engaged in, any business providing restricted services (as described below) in jurisdictions where there are companies or businesses that are transferring to the Company, being Bahrain, Chile, Dubai (including the Dubai International Financial Centre), France, Hong Kong, India, Ireland, Israel, Italy, Lebanon, Luxembourg, Monaco, Netherlands, Panama, Singapore, Spain, Switzerland, Uruguay, the United Kingdom (including Jersey), and certain other jurisdictions, including Argentina, China, Indonesia, Mexico, Brazil Malaysia, Thailand, Belgium, Philippines, Germany, Kuwait, Venezuela and Greece. Merrill Lynch & Co., Inc. will, however, continue to be able to offer restricted services anywhere in the world through financial advisers whose home office is located in the United States, subject to certain limitations.

Restricted services means, in respect of the management of wealth on behalf of clients: (i) advisory services that are solely in relation to investment products, receipt and transmission of orders in respect of investments; (ii) execution and settlement of transactions in financial assets, delivery and receipt of purchased or sold financial assets and distribution and receipt of payments in respect thereof; (iii) trust services and products; and (iv) discretionary portfolio management services.

Subject to certain exemptions and limitations, Merrill Lynch & Co., Inc. has also agreed that it shall not, and it shall procure that none of its affiliates shall, from the date of the Acquisition Agreement until the date falling 36 months after Principal Completion, engage in the solicitation of any clients of the businesses and companies that are transferring to the Company for the purpose of providing restricted services (as described above), to those clients. If any client of the businesses and companies that are transferring to the Company transfers to Merrill Lynch & Co., Inc. during this period, Merrill Lynch & Co., Inc. will, subject to certain exceptions, seek to transfer that client back to the Company and, if not successful, will terminate the client relationship within three months of becoming aware of the transfer. If the client does not transfer back to the Company, Merrill Lynch & Co., Inc. will make certain payments to the Company, including a refund of any purchase price paid relating to such clients.

### Warranties

Pursuant to the terms of the Acquisition Agreement, Merrill Lynch & Co., Inc. has given certain warranties usual for a transaction of this nature, including, but not limited to, warranties relating to, authority and capacity, the shares and assets that are transferring to the Company pursuant to the terms of the Acquisition Agreement, the accounts, properties, client contracts, intellectual property, information technology, data protection, related-party transactions, employees and terms of employment, pensions, compliance with laws and regulations, litigation, insurance, insolvency, taxation, revenues, and client AuM. These warranties were made for the benefit of the Company and for no other person. Merrill Lynch & Co., Inc.'s liability for claims for breach of warranty (except for fraud) and breach of certain of its obligations in the Acquisition Agreement is subject to certain limitations (including time limitations and financial limitations) customary for transactions like the Acquisition.

In addition, the Company has given certain warranties usual for a transaction of this nature, including, but not limited to, warranties relating to authority and capacity, regulatory matters, financing arrangements and the shares in the Company being issued to Merrill Lynch & Co., Inc. as part of the consideration.

### Indemnification

Subject to certain exceptions and limitations, Merrill Lynch & Co., Inc. has agreed to indemnify the Company and any of its affiliates (including the companies that are transferring to the Company pursuant to the Acquisition Agreement) from and against certain excluded liabilities that the Company or any of its affiliates (including the companies that are transferring to the Company pursuant to the Acquisition Agreement) may suffer or incur and any costs arising out of or in connection with such excluded liabilities. The excluded liabilities include: (i) any liabilities that are incurred as a result of any pre-completion action, being any liability incurred as a result of a failure by Merrill Lynch & Co., Inc. or any of its affiliates to comply with its obligations and duties under any contracts or applicable laws in respect of any business or company that is transferring to the Company, prior to that transfer occurring; and (ii) any pre-completion litigation, being any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry, mediation or arbitration brought against the companies or the businesses transferring to the Company, prior to that transfer occurring. The Company's right to indemnification in connection with any specific claim is subject to certain customary limitations but is not subject to time limitations or financial limitations.

Subject to certain exceptions and limitations, the Company has agreed to indemnify Merrill Lynch & Co., Inc. and any of it affiliates, as the case may be, from and against certain assumed liabilities that Merrill Lynch & Co., Inc. or any of it affiliates may suffer or incur and any costs arising out of or in connection with such assumed liabilities. The assumed liabilities include: (i) any liabilities that are incurred as a result of any post-completion action, being any liability incurred as a result of a failure by the Company or any of its affiliates to comply with its obligations and duties under any contracts or applicable laws in respect of any business or company once the transfer of those businesses and companies have been completed; and (ii) any post-completion litigation, being any claim, legal action, proceeding, suit, litigation, prosecution, investigation, enquiry, mediation or arbitration brought in respect of the companies or the businesses to the extent it relates to the period following the completion of their transfer to the Company.

### Revenues, Direct Costs and Allocation Charges

Under the terms of the Acquisition Agreement, as a general principle, at the same time as the Company acquires a particular company or business, and therefore also becomes the employer of the financial advisers of that company or business, the Company will receive the revenues attributable to AuM managed or advised by those financial advisers booked on Merrill Lynch & Co., Inc. platforms. At that time, the Company will also take on the direct costs attributable to those financial advisers and other employees that are specific to the transferring company or business who transfer at the same time. Separately, the Company will make a payment to Merrill Lynch & Co., Inc. in respect of any central services Merrill Lynch & Co., Inc. continues to provide during the transitional period (allocation charges), such services to be set out in the transitional services agreement to be entered into at Principal Completion (as set out below under "— Transitional Services Agreement"). The allocation charges payable by the Company at any given time are calculated by reference to the proportion of production credits generated by transferring financial advisers on Merrill Lynch & Co., Inc. platforms which are attributable to financial advisers employed by the Company at the relevant time; the Company will pay for the same proportion of the total allocation charges, subject to a cap which reduces over time as AuM transfer to the Company.

For companies that are being transferred to the Company by way of share sale (other than Merrill Lynch Bank (Suisse) S.A.), for example, Merrill Lynch Portfolio Managers Limited in the United Kingdom and Merrill Lynch (Montevideo) S.A. in Uruguay, all revenues relating to assets of clients advised by the financial advisers of the relevant entity booked on any of Merrill Lynch & Co., Inc.'s booking platforms will transfer to the Company at the completion of the transfer of the relevant entity, together with all direct costs, as described above. Allocation charges will be made as set out above.

In relation to Merrill Lynch Bank (Suisse) S.A., all revenues relating to assets booked with Merrill Lynch Bank (Suisse) S.A. will transfer to the Company at Principal Completion with the legal entity, together with all direct costs, as described above. Notwithstanding any use by Merrill Lynch Bank (Suisse) S.A. of Bank of America Merrill Lynch central services, no allocation charges will be payable by the Company in respect of Merrill Lynch Bank (Suisse) S.A. or its AuM.

For business transfers, all revenues relating to assets of clients advised by the financial advisers that are transferring to the Company and which are booked on any of Merrill Lynch & Co., Inc.'s booking platforms will transfer to the Company at the same time as the financial adviser transfers, together with all direct costs, as described above. Allocation charges will be made as set out above. In certain jurisdictions, however, for example as regards the business of Merrill Lynch (Asia Pacific) Ltd. in Hong Kong and Merrill Lynch International Bank Limited (Merchant Bank) in Singapore which is to be transferred, revenues will only transfer if and to the extent that clients have signed an advisory agreement with the Company.

### Excluded Clients

The Company may, in its reasonable discretion, exclude a client from transferring to the Company or one of its affiliates in certain limited circumstances, including, but not limited to, if: (i) the client is a U.S. person; (ii) the client is a resident of India and Merrill Lynch & Co., Inc. provides services to such client from outside India; (iii) the client's account is blocked or frozen as a consequence of pending or on-going legal proceedings or investigations in any jurisdiction; or (iv) the client's account is subject of economic sanctions or certain other objective compliance standards in any jurisdiction. The Company will not pay for the AuM of any excluded clients.

### Employees

Merrill Lynch & Co., Inc. has agreed to fund certain employee-related restructuring costs which may arise in connection with the Acquisition. Finalisation of any such plans will be subject to appropriate engagement, where required, with employees and employee representative bodies. In order to meet such restructuring costs, Merrill Lynch & Co., Inc. has agreed to pay USD 125 million into an escrow account which can be drawn down for a period of 42 months from Principal Completion to cover certain separation costs incurred by either party in implementing the transactions contemplated in the Acquisition Agreement, including in relation to any employee-related restructuring costs.

### Strategic Cooperation Agreement

The Acquisition Agreement is conditional, among other things, on the Company and Merrill Lynch & Co., Inc. having agreed the terms of a strategic co-operation agreement prior to Principal Completion. The Acquisition Agreement contains a non-binding term sheet for the proposed strategic arrangements to be entered into by the Company or its affiliates and Merrill Lynch & Co., Inc. or its affiliates and it is expected that the strategic co-operation agreement will cover a minority investment by Bank of America Corporation and/or any of its affiliates in the share capital of the Company (as set out above under "— Consideration") and certain strategic commercial arrangements between Bank of America Corporation or its affiliates and the Company or its affiliates.

Pursuant to the strategic co-operation agreement, Bank of America Corporation and the Company will enter into non-exclusive referral arrangements pursuant to which the Company will refer clients to the Global Corporate & Investment Banking division of Bank of America Corporation in respect of investment banking opportunities relating to advisory services (including mergers and acquisitions, private placements and private equity fundraising) and underwriting services (including equity, equity-linked, high yield debt, investment grade debt and corporate equity derivative financings) and other markets products. In addition, Bank of America Corporation will refer clients to the Company in respect of wealth management opportunities to the extent clients are seeking a non-U.S. based financial adviser (excluding Japan), and the Company will refer clients to Bank of America Corporation in respect of wealth management opportunities to the extent clients are seeking a U.S. based financial adviser.

Pursuant to the strategic cooperation agreement, it is expected that Bank of America Corporation will provide certain products and services to the Company, including, but not limited to, global equity research and investment ideas and opportunities for international wealth management clients.

### Transitional Services Agreement

The Acquisition Agreement is conditional on the Company and Merrill Lynch & Co., Inc. having agreed the terms of a transitional services agreement on or prior to Principal Completion. The Acquisition Agreement contains a substantially agreed form of the transitional services agreement. The Acquisition Agreement also contains binding provisions governing the process for the parties to agree and complete the operational schedules to the transitional services agreement, including the agreed transitional services to be provided by Merrill Lynch & Co., Inc. or its affiliates to the companies and businesses transferring to the Company under the Acquisition Agreement (as well as other nominated affiliates of the Company). It is expected that this is to include services related to financial management and payment systems, information technology, and general administrative matters.

In addition to the agreed services in the service schedule, the Company may request, within three months of each Subsequent Completion, that Merrill Lynch & Co., Inc. provide any service which Merrill Lynch & Co., Inc. provided to the transferred companies and businesses in the six months prior to Principal Completion which has been omitted from the service schedule. However, this is subject, among other things, to a list of services which are specifically excluded from provision by Merrill Lynch & Co., Inc., which is to be agreed between the parties. The services will also include exit and migration assistance from Merrill Lynch & Co., Inc. on the expiry or termination of the transitional services agreement.

Under the transitional services agreement, each transitional service will have its own individual term. However, Merrill Lynch & Co., Inc. will not be obliged to provide any transitional services for a period which is longer than 12 months from the Longstop Date, subject to possible extension by agreement. the Company may terminate the provision of any service at any time by providing 30 days' notice. Either party may also terminate the transitional services agreement if the other party is subject of an insolvency event or materially breaches the transitional services agreement and does not remedy such breach within 20 business days.

Merrill Lynch & Co., Inc. is obliged to provide the transitional services in accordance with specified (if applicable) or historical service levels, and is to ensure that the services are provided by a sufficient number of appropriately skilled and experienced personnel. The transitional services are also to be provided in compliance with applicable law, including any change in regulation.

There is no separate consideration for the transitional services under the transitional services agreement; payment for the transitional services is part of the allocation charges mechanism set out in the Acquisition Agreement (as described above in "— Revenues, Direct Costs and Allocation Charges").

Under the transitional services agreement, Merrill Lynch & Co., Inc. will indemnify the Company against any claims made by a client as a result of an act or omission of Merrill Lynch & Co., Inc. arising out of the transitional services agreement or the services. The Company's right to indemnification in connection with any specific claim is not subject to time limitations or financial limitations. Merrill Lynch & Co., Inc.'s liability to the Company for any other breach of the transitional services agreement is subject to the same aggregate financial limitations as a breach of warranty claim by the Company under the Acquisition Agreement.

# BOARD OF DIRECTORS AND MANAGEMENT

## Board of Directors

The Board of Directors is responsible for the ultimate direction, supervision and control of the Company, which it fulfils within the scope of the duties stipulated in article 716a of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*) and through calling on its various committees. The complete Board of Directors is especially responsible for preparing all topics which fall within the competence of the Ordinary Annual General Meeting and receives support and advice from the Audit Committee in particular in matters of financial reporting and other capital management questions. Based on the proposal of the Audit Committee, the complete Board of Directors decides on the external auditors to be recommended for appointment at the Ordinary Annual General Meeting. Entry into, dissolution and modification of joint ventures of strategic importance by the Company also falls within the competence of the complete Board of Directors. Upon proposal by the Executive Board and respective approval by the Chairman's and Risk Committee, the complete Board of Directors approves the definition of further principal operating subsidiaries in addition to Bank Julius Baer & Co. Ltd. Moreover, the complete Board of Directors appoints the Chief Executive Officer and the other members of the Executive Board and, based on the proposal of the Audit Committee, decides on the appointment and dismissal of the Head of Group Internal Audit. Furthermore, the complete Board of Directors decides on the appointment and dismissal of the Chairman of the Board of Directors, of members of the Board of Directors and of advisory board members of the principal operating subsidiaries. The complete Board of Directors is responsible for determining the overall risk policy of the organisation as well as for the design of accounting, financial controlling and strategic financial planning. It also decides on capital market transactions involving shares of Julius Baer Group Ltd., on such resulting in the issue of bonds of the Company as well as on the issue of bonds by subsidiaries based on a graduated competence schedule regarding the capital and time commitment involved.

The following table sets forth, as at the date of this Offering Circular, the name, age and title of each member of the Company's Board of Directors (current) followed by a brief description of each director's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years (other than at other Group companies).

| Name | Age | Title | Elected until |
|---|---|---|---|
| Daniel J. Sauter(1) (4) | 55 | Non-executive Chairman | 2013 |
| Gilbert Achermann(2)(4) | 48 | Non-executive Director | 2013 |
| Andreas Amschwand(1) | 52 | Non-executive Director | 2013 |
| Heinrich Baumann(1)(2)(3) | 61 | Non-executive Director | 2014 |
| Leonhard H. Fischer(1)(3) | 49 | Non-executive Director | 2013 |
| Claire Giraut(2)(4) | 56 | Non-executive Director | 2013 |
| Gareth Penny(3) | 50 | Non-executive Director | 2013 |
| Charles G.T. Stonehill(2) | 54 | Non-executive Director | 2014 |
| Raymond J. Baer | 53 | Honorary Chairman of Julius Baer Group Ltd(5) | Not applicable |

Notes:

(1) Member of the Chairman's and Risk Committee.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) Member of the Nomination Committee.

(5) The title of Honorary Chairman does not convey the powers, duties and responsibilities associated with the title of Director or Chairman.

***Daniel J. Sauter*** (born 1957, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2007, respectively. He was elected Chairman of the Board of Directors of both Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. in 2012. He was previously the Chairman of the Board of Directors of Alpine Select AG, Zug until 2012 and was member of the Board of Directors of Charles Vögele Holding Ltd, Pfaeffikon until 2009 and of Sulzer AG, Winterthur until 2012. Daniel Sauter is currently Chairman of the Board of Directors of Trinsic AG, Zug, and a member of the Board of Directors of Sika AG, Baar and Model Holding AG, Weinfelden. He is a Swiss-certified banking specialist with the Swiss Banking School.

***Gilbert Achermann*** (born 1964, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. since 2012. In addition to his appointment with Julius Baer Group Ltd., he is also Chairman of the Board of Directors of the Straumann Group and Siegfried Group, Basle, Vice Chairman of the Board of Directors of H. Moser & Cie, Schaffhausen and a member of the Board of Medical Cluster Schweiz, Bern. He holds an Executive Masters in Business Administration from IMD, Lausanne.

***Andreas Amschwand*** (born 1960, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. since 2012. Prior to his appointment to the Board of Directors, he spent more than 20 years at UBS AG (formerly Swiss Bank Corporation), Zurich, where he served as Global Head of Investment Products and Services. He holds a B.Sc. in Business and Accounting from the School of Economics and Business.

***Heinrich Baumann*** (born 1951, Swiss citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. since 2011. He is a self-employed management consultant, and previously served as Chairman of the Board of Directors of HSBC Guyerzeller Trust Company from 2006 to 2009. He holds a Ph.D. in Management, Technology and Economics from the Swiss Federal Institute of Technology (ETH), Zurich.

***Leonhard H. Fischer*** (born 1963, German citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009. He was previously Chairman of the Supervisory Board and a member of the Chairman's Committee of DBV – Winterthur Holding AG (DWH), Winterthur until 2010. He currently serves as a member of the Board of Directors and is the Chief Executive Officer of RHJ International SA, Brussels, and is a member of the Supervisory Board of ACA Konzern AG, Cologne, a member of the Management Board of Gesellschaft zur Foerderung der Frankfurter Wertpapierboerse e.V., Frankfurt and a member of the Board of Directors and Chairman of the Audit Committee of Glencore International plc, Baar. He holds a Master in Finance from the University of Georgia.

***Claire Giraut*** (born 1956, French citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2010. She previously served as Chief Financial Officer at Europcar Groupe, S.A. and Ipsen Pharma S.A. She is member of the Board of Directors and of the Audit Committee of Heurtey-Petrochem S.A., Vincennes, France. She holds a Master in Biotech Engineering from the Institut Nationale Agronomique, Paris.

***Gareth Penny*** (born 1962, South African and Irish citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2007, respectively. From September

2012, he will also serve as Chairman of the Board of Directors of New World Resources, plc in London. He holds an M.A. in Philosophy, Politics and Economics from Oxford University.

***Charles G.T. Stonehill*** (born 1958, British and American citizen) has been a member of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009 and 2006, respectively. He is also a Managing Director at RSR Partners, New York. He holds an M.A. in Modern History from Oxford University.

***Raymond J. Baer*** (born 1959, Swiss citizen) has been Honorary Chairman of the Board of Directors of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2012. He previously served as Chairman of the Board of Directors of Julius Baer Group Ltd. from 2009 to 2012 and Chairman of the Board of Directors of Bank Julius Baer & Co. Ltd. from 2003 to 2012. Raymond J. Baer was also the Chairman of the Board of Directors of the former Julius Baer Holding Ltd. from 2003 to 2009. Mr. Baer holds an LL.M. from Columbia Law School (please note that the position of Honorary Chairman does not convey the powers, duties and responsibilities associated with the position of Director or Chairman).

The business address of all members of the Board of Directors of Julius Baer Group Ltd. is Julius Baer Group Ltd., Bahnhofstrasse 36, P.O. Box, 8010 Zurich, Switzerland.

## Board Organisation

### *Elections and terms of office*

The members of the Board of Directors are elected on an individual basis by the Ordinary Annual General Meeting, normally for a term of three years (or for a one-year term from 2012 in the case of re-elections or new elections). The period between two Ordinary Annual General Meetings is deemed to be one year. The term of office for each director shall be fixed with his/her election. Members whose term of office has expired are immediately eligible for re-election. The Board of Directors shall constitute itself. The maximum (cumulative) term of office for the members of the Board of Directors is generally twelve years. Members who have reached their 67th year of age generally do not seek re-election at the end of their current term. However, in exceptional instances, the Board of Directors may propose the re-election of such a Board member to the Ordinary Annual General Meeting. The term of office of a member of the Board of Directors ends automatically at the Ordinary Annual General Meeting in the year in which he/she completes his/her 70th year of age.

### *Internal organisational structure*

The Board of Directors consists of three or more members. It meets as often as business requires, but at least once per quarter. The presence of a majority of its members is necessary for resolutions to be passed, with the exception of the ascertainment resolution and the resolution concerning the amendment of the Company's articles of incorporation ("Articles of Incorporation") as well as the capital increase report in the case of capital increases. Resolutions are passed by an absolute majority of votes of members present. The members of the Board of Directors may also be present by phone or electronic means. Resolutions of the Board of Directors may also be passed by way of written consent (letter, fax) or by way of an electronic data transfer provided that no member requests oral deliberation. In such cases, the text of written resolutions must be sent to all members and approved by all members of the Board of Directors to be valid.

In the case of a tie vote at meetings, the Chairman shall have the casting vote. For resolutions passed by the Board of Directors with regard to agenda items that have been subject to prior resolution by a Committee of the Board of Directors (pre-resolving Committee) and if the members of such pre-resolving Committee (taking into consideration the casting vote of the Chairman) would represent a majority of votes in the Board of Directors, the casting vote shall not be with the Chairman of the Board but with the chairperson of the

Audit Committee, unless the chairperson of the Audit Committee is also a member of such pre-resolving Committee, in which case the casting vote shall be with the member of the Board of Directors who is not a member of such pre-resolving Committee and who has served the longest total term of office on the Board of Directors. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the complete Board of Directors. These meetings generally take up at least half a day.

In order to gauge the effectiveness of its activities, the Board of Directors as a whole as well as the respective committees carry out an annual self-assessment. The aim is to review and assess what has been achieved relative to the objectives formulated at the beginning of the year. The results of the committees are brought to the attention of the complete Board of Directors.

The Board of Directors normally meets for one strategy seminar a year. The purpose of this seminar is to analyse the positioning of the Julius Baer Group as well as to review and if necessary redefine its strategic direction in light of the prevailing macroeconomic and company-specific circumstances.

In 2011, the complete Board of Directors of Julius Baer Group Ltd. held six meetings, a two-day strategy seminar and four telephone conferences.

From among its members, the Board of Directors elects a Chairman as well as the chairpersons and the members of the committees of the Board of Directors. The chairpersons of the committees are responsible for seeking advice from external specialists as well as from members of the Executive Board as needed.

According to the Articles of Incorporation of Julius Baer Group Ltd., the Board of Directors has the following non-transferable and irrevocable duties:

- to supervise the Company and issue the necessary instructions;
- to determine the organisation of the Company;
- to arrange the accounting, financial control and
- financial planning inasmuch as they are necessary for the management of the Company;
- to appoint and remove the persons entrusted with the Company's management;
- to control those persons entrusted with the management of the Company, also in relation to compliance with laws, statutes, regulations and instructions;
- to draw up the Annual Report and to prepare the Ordinary Annual General Meeting and implementation of its resolutions;
- to inform the judge in the event of insolvency.

The Board of Directors may assign the preparation and carrying out of its resolutions or the supervision of business transactions to committees or individual members. It must make sure its members are suitably informed.

## Board Committees

The members of the Board of Directors discuss specific topics in the Board's committees. Each of these committees is chaired by an independent director, except for the Chairman's and Risk Committee, which is presided over by the Chairman of the Board. Each committee chairperson provides the complete Board of Directors with regular updates on the current activities of the respective committee and on important committee issues. In addition, the minutes of the committee meetings are made available to the complete Board of Directors.

### Chairman's and Risk Committee

The Chairman's and Risk Committee consists of the Chairman of the Board of Directors and at least two other members who are specifically skilled and experienced in areas of finance, corporate governance and risk control. It is presided over by the Chairman of the Board of Directors. The Chairman's and Risk Committee is responsible for developing and upholding principles of corporate governance for the Julius Baer Group and for authorising market, credit and financial risks (as set out in the appendix of the Organisational and Management Regulations), including, in particular, loans granted to members of the Board of Directors and of the Senior Management and/or affiliated entities and closely related individuals (*Organkredite*) as defined by the relevant Swiss accounting standards. The Chairman's and Risk Committee monitors compliance with rules governing large concentrations of risk (*Klumpenrisiken*) and is responsible for 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 profile adopted by the Board of Directors or other relevant supervisory or managing bodies.

The Chairman's and Risk Committee determines, coordinates and reviews the risk limits in the context of the overall risk policy. It reviews the policies with regard to risks other than operational risk (including legal and regulatory risk) and determines the guidelines for financial reporting. The Chairman's and Risk Committee bases its risk-related work on the Risk Landscape, as approved by the Chairman's and Risk Committee at a joint meeting with the Audit Committee of the Board of Directors, once a year. The Chairman's and Risk Committee furthermore approves the issuance of guarantees, letters of comfort and similar items relative to Julius Baer Group Ltd. and the principal operating subsidiaries. It approves the entry into, the dissolution and the modification of joint ventures of strategic importance by the principal operating subsidiaries, and approves the issue and amendment of organisational and management regulations of the principal operating subsidiaries, including the allocation of responsibilities. The Chairman's and Risk Committee furthermore approves the formation, the change in capital or ownership structure, structure, the change of legal form, and the liquidation or closure of principal operating subsidiaries. The Chairman's and Risk Committee decides on requests from members of the Executive Board and full-time members of the Board of Directors to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to such members to serve in public office or in the government or to take over a higher rank in the military.

The Chairman's and Risk Committee generally convenes monthly. In 2011, the Committee met twelve times for approximately three hours each. The members of the Executive Board of the Company generally participate as guests in the meetings of the Chairman's and Risk Committee.

As at the date of this Offering Circular, the Chairman's and Risk Committee consists of Daniel J. Sauter (chairperson), Andreas Amschwand, Heinrich Baumann and Leonhard H. Fischer.

### Audit Committee

The Audit Committee is responsible for the integrity of controls for financial reporting and the review of certain financial statements, including the consolidated statement of the Group, the annual financial statement and interim statements before they are presented to the complete Board of Directors for approval. It also reviews the internal and external communication regarding the financial data and accounting statements and related information. The Audit Committee monitors compliance by the Company with its respective legal and regulatory obligations and ensures the receipt of regular information as to compliance by its subsidiaries with such obligations as well as with regard to the existence of an adequate and effective internal control as regards financial reporting. The Audit Committee is responsible for the standards and methodologies for risk control with regard to operational risk (including legal and regulatory risk) which are employed to comply with the principles and risk profile of the Group adopted by the Board of Directors or other relevant supervisory or management bodies.

The Committee directs and monitors the activities of Group Internal Audit and ultimately determines the compensation paid to the Head of Group Internal Audit. The chairperson of the Committee meets with the Head of Group Internal Audit on a regular basis throughout the year, usually every two months.

The Committee ensures contact with the external auditors at the level of the Board of Directors and monitors their performance and independence as well as their cooperation with the internal auditors. The Committee is also responsible for assessing the performance of the external auditor on an annual basis. It reviews their reports about the rendering of the accounts and the management letter and provides a recommendation to the complete Board of Directors regarding election of the external auditor at the Ordinary Annual General Meeting.

The members of the Audit Committee are independent. The Audit Committee has its own charter and performs an in-depth annual self-assessment with regard to its own performance. The Audit Committee convenes at least four times a year for about two to three hours on average. The members of the Executive Board of Julius Baer Group Ltd. generally participate as guests in the meetings of the Audit Committee. The Head of Group Internal Audit and representatives of the external auditor participate in every meeting. During 2011, the Audit Committee held seven meetings.

As at the date of this Offering Circular, the Audit Committee consists of Charles G.T. Stonehill (chairperson), Gilbert Achermann, Heinrich Baumann and Claire Giraut.

### Compensation Committee

The Compensation Committee is responsible for approving any compensation principles and policies relating to the Julius Baer Group as a whole as well as any compensation policies within the Julius Baer Group which are linked to the shares of the Company. It annually reviews that the principles and policies are operated as intended and that any policies are compliant with national and international regulations and standards. Furthermore, it regularly reviews and ultimately determines the total compensation (including termination payments) of the Chairman and, if applicable, of the Vice Chairman of the Board of Directors, and prepares and provides to the Board of Directors all compensation proposals relating to all other members of the Board of Directors. The Compensation Committee also regularly reviews and ultimately determines the compensation of the members of the Executive Board of the Company.

The Committee approves the appointment and dismissal of the members of the foundation boards of the pension funds (employer representatives only) of the Company and its principal operating subsidiaries. The Committee is also responsible for approving those staff members that have been identified in an annual process as so called Key Risk Takers, who, due to their position, influence or the nature of their work, may expose the Group to significant risk. The chairperson of the Compensation Committee informs the Board of Directors at every meeting of the Board of Directors about the work of the Committee.

The Compensation Committee consists of at least three members, who are appointed by the Board of Directors. With respect to decisions of a specialised nature, the Compensation Committee may seek advice from additional members of the Board of Directors. The Compensation Committee convenes as often as required for two hours on average. During 2011, the Compensation Committee held four meetings.

As at the date of this Offering Circular, the Risk Committee consists of Gareth Penny (chairperson), Heinrich Baumann and Leonhard H. Fischer.

### Nomination Committee

In general, the role of the Nomination Committee is to assist the Board of Directors in the effective discharge of its responsibilities, ensuring that the Board of Directors comprises individuals who are best able to discharge the responsibilities of directors, in accordance with applicable laws and regulations as well as principles of sound corporate governance.

The Nomination Committee is responsible for the long-term succession planning at the level of the Board of Directors. It assesses candidates as possible new members of the Board of Directors of the Company and prepares respective nominations for approval by the complete Board of Directors as well as for final consideration by the Ordinary Annual General Meeting.

The Nomination Committee is also responsible for the long-term succession planning at the level of the Chief Executive Officer of the Company and in this function assesses potential candidates and prepares respective nominations for approval by the Board of Directors. In particular, the Nomination Committee has the following powers, duties and responsibilities:

- establishment of profiles describing necessary and desirable competencies and skills of members of the Board of Directors and of the Chief Executive Officer;
- search for and identification of suitably qualified candidates for appointment to the Board of Directors;
- conduct of exploratory talks and application talks with possible candidates;
- submission of proposals to the Board of Directors with regard to the election of members of the Board of Directors and nomination of the Chief Executive Officer;
- establishment of a Board of Directors and Chief Executive Officer succession plan;
- supervision of the staggered re-election process with regard to members of the Board of Directors.

The Nomination Committee convenes as needed and consists of a minimum of three members of the Board of Directors, who are appointed by the Board of Directors. The chairperson of the Compensation Committee of the Board of Directors shall also act as chairperson of the Nomination Committee. The Nomination Committee met once in 2011 and was supported in its work by an external specialised consultancy firm.

As at the date of this Offering Circular, the Nomination Committee consists of Claire Giraut (chairperson), Gilbert Achermann and Daniel J. Sauter.

## Executive Board

The Executive Board is responsible for the implementation of the Company's and the Group's overall strategy, within the respective parameters established by the Board of Directors, and is accountable for all operational and organisational matters as well as for the operating results. Except where delegated by the Board of Directors to another supervisory or managing body, the Executive Board is ultimately responsible for all of the day-to-day activities of the Company, including such activities which have been assigned or delegated by the Executive Board

The Executive Board is responsible for ensuring the consistent development of the Julius Baer Group in accordance with established business policies, for establishing the organisation of the Executive Board itself, and for representing the Executive Board in its relationship with the Board of Directors and third parties.

The Executive Board has the right to issue binding policies to and require reporting or consultation from Group companies before a decision is taken. It proposes the formation, the change in capital or ownership structure, the change of legal form, and the liquidation or closure of principal operating companies and subsidiaries to the Chairman's and Risk Committee for final approval. It approves entry into, dissolution and modification of joint ventures of strategic importance by subsidiaries other than principal operating subsidiaries. The Executive Board grants permission to employees (other than the members of the Executive Board and the full-time members of the Board of Directors) to serve on outside boards of directors or advisory boards, boards of trustees or foundation boards and gives its consent to serve in public office, government or a higher rank in the military.

In addition, the Executive Board may form committees for specific tasks and regulate their activities. Their composition and areas of responsibility must be approved in advance by the Board of Directors.

The Executive Board is responsible for general corporate administration, in particular the registration of shareholders in and the maintenance of the share register. The Executive Board coordinates press contacts, press conferences and press releases and is responsible for investor relations and corporate identity (including corporate design and trademarks) of the Company. It also monitors and evaluates financial and other risks as well as compliance with rules governing equity capital, risk distribution and liquidity maintenance. Additionally, the Executive Board coordinates the contacts with the regulatory authorities. The Executive Board is empowered to issue binding instructions, which may be of general application or related to specific business matters, and may require the submission of reports, or consultation with the Executive Board prior to making decisions.

The Executive Board is presided over by the Chief Executive Officer (the President of the Executive Board). The Chief Executive Officer is responsible, in particular, for ensuring the consistent management development of the Company in accordance with established business policies and strategies, representing the Executive Board in its relationship with the Board of Directors and third parties and establishing the organisation of the Executive Board itself within the framework as provided by the Articles of Incorporation as well as the Organisational and Management Regulations of Julius Baer Group Ltd. and the Julius Baer Group.

The following table sets forth the name, age and title of each member of the Executive Board prior to the Acquisition, followed by a brief description of each member's business experience and education, including the names of all companies and partnerships of which such person has been a member of the administrative, management or supervisory bodies or partner at any time in the previous five years (other than at other Group companies). All members have the same business address at Julius Baer Group Ltd., Bahnhofstrasse 36, P.O. Box, 8010 Zurich. The table does not reflect the realignment of our management structure that is expected to take place at Principal Completion. For a description of our organisational structure following Principal Completion, see " — Realignment of Management Structure".

| **Name** | **Age** | **Title** |
|---|---|---|
| Boris F.J. Collardi | 38 | Chief Executive Officer |
| Dieter A. Enkelmann | 53 | Chief Financial Officer |
| Bernhard Hodler | 52 | Chief Risk Officer |
| Jan A. Bielinski | 58 | Chief Communications Officer |
| Christoph Hiestand | 43 | General Counsel |
| Bernard Keller | 59 | Private Banking Representative |

***Boris F.J. Collardi*** (born 1974, Swiss and Italian citizen) has been the Chief Executive Officer of Julius Baer Group Ltd. and a member of the Executive Board since October 2009. He is also currently the Chief Executive Officer of Bank Julius Baer & Co. Ltd., a position he has held since May 2009. Before joining Bank Julius Baer & Co. Ltd., Mr. Collardi spent more than 10 years at Credit Suisse, where he served as

Chief Operations Officer Europe, Middle East & North Africa and Head of Special Projects until 2006. Mr. Collardi is a graduate of the Executive Programme at IMD Lausanne and completed a Major in Accounting at Cessouest School, Nyon.

***Dieter A. Enkelmann*** (born 1959, Swiss citizen) has been the Chief Financial Officer and a member of the Executive Board of Julius Baer Group Ltd. and Bank Julius Baer & Co. Ltd. since 2009. He previously served as Chief Financial Officer and was a member of the Executive Board of the former Julius Baer Holding Ltd. until 2006 and was the administrative and organisational manager of the Executive Board of the former Julius Baer Holding Ltd. from 2008 to 2009. Prior to his appointment, he served in various positions at Bank Julius Baer & Co. Ltd. and Julius Baer Holding, Ltd. Mr Enkelmann has also served as Chief Financial Officer at Barry Callebaut and Swiss Re (where he also served as Head of Corporate Financial Management and Investor Relations). Mr. Enkelmann holds a degree in law from the University of Zurich.

***Bernhard Hodler*** (born 1960, Swiss citizen) has been the Chief Risk Officer of Julius Baer Group Ltd. and a member of its Executive Board since 2009. He began his career at Bank Julius Baer & Co. Ltd. as Head of Global Risk Management in 1998, and is currently its Chief Operating Officer and a member of the Executive Board of Bank Julius Baer & Co. Ltd., roles he has held since 2005. Mr. Hodler previously was a member of the Executive Board of the former Julius Baer Holding Ltd. from November 2007 to September 2009. Mr. Hodler is also a member of the Board of Directors of ifb International AG, Pfaeffikon. Mr. Hodler has a degree in Business Administration from the School of Economics and Business (HWV), Berne, and attended the Advanced Executive Programme of the Swiss Banking School between 1999 and 2000 and the Advanced Management Program of the Wharton School, University of Pennsylvania, in 2004. He is a chartered financial risk manager (GARP).

***Jan A. Bielinski*** (born 1954, Swiss citizen) has served as Chief Communications Officer of Julius Baer Group Ltd. and member of the Executive Board of Julius Baer Group Ltd. since 2009. He joined Bank Julius Baer & Co, Ltd. in 1983 and served as Head of Corporate & Marketing Communications before moving to the former Julius Baer Holding Ltd., where he was Chief Communications Officer until 2009. In addition, Mr. Bielinski has served as Chief Communications Officer and Head Marketing of Bank Julius Baer & Co. Ltd. since 2010 and 2011, respectively. Mr. Bielinski holds a Ph.D. in law from the University of Zurich and attended the Advanced Management Program at the Wharton School, University of Pennsylvania, in 1989.

***Christoph Hiestand*** (born 1969, Swiss citizen) has been the General Counsel of Julius Baer Group Ltd. and a member of the Executive Board of Julius Baer Group Ltd. since 2009. He joined Bank Julius Baer & Co. Ltd. in 2001 as Legal Counsel, and subsequently served as Deputy Group General Counsel at the former Julius Baer Holding Ltd. from 2006 to 2009. Mr. Hiestand holds a law degree from the University of St. Gallen and an LL.M. from Cornell Law School.

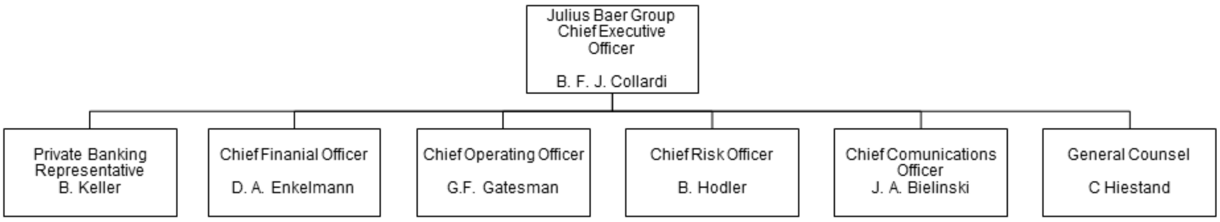
***Bernard Keller*** (born 1953, Swiss citizen) has been the Private Banking Representative of Julius Baer Group Ltd. and a member of its Executive Board since he joined in 2010. He joined Bank Julius Baer & Co. Ltd. in 2007 where he served as Chief Executive Officer Ticino and Italy until 2009 and Head of Switzerland from 2010 to June 2011. He is also a member of its Executive Board. Mr. Keller previously served as Chief Executive Officer of Banca Julius Baer (Lugano) SA (following the acquisition from UBS AG of three independent banks in 2005) from 2005 to 2006. Mr. Keller holds a degree in economics from the University of St. Gallen.

### Realignment of Management Structure

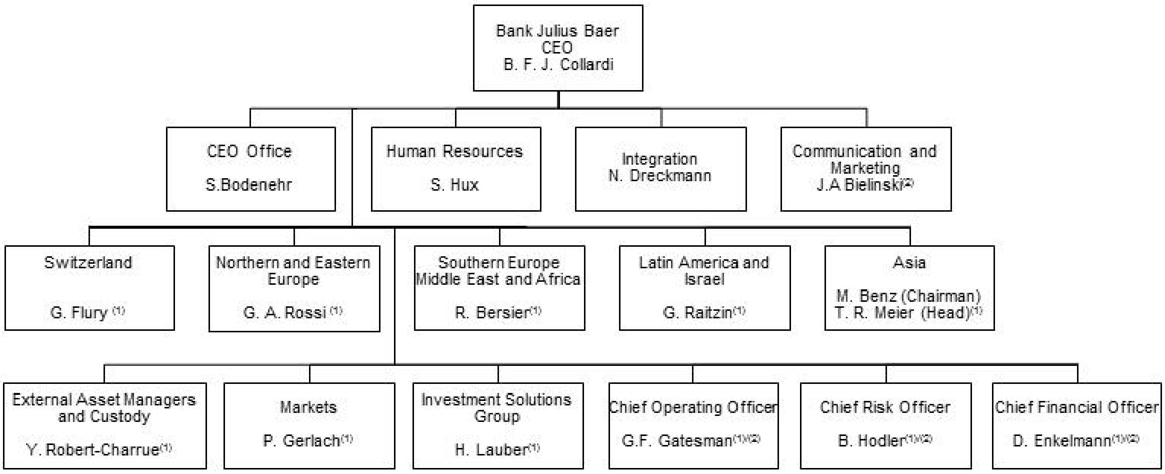
As a consequence of the Acquisition and the greater importance of growth markets resulting therefrom, our management structure will be realigned at the time of Principal Completion. In connection with the realignment, certain members of IWM's management team are expected to join the Julius Baer Group, including Gregory Gatesman, Sonia Dula and Michael Benz, who will serve as Chief Operating Officer, Head of Latin America, Geneva and Chairman of the Asia region, respectively.

The following charts set forth the realigned management structure:

***Management Structure of Julius Baer Group Ltd.***




***Management Structure of Bank Julius Baer & Co. Ltd.***




Notes:

(1) Member of the Executive Board of Bank Julius Baer & Co. Ltd.

(2) Member of the Executive Board of Julius Baer Group Ltd.

***Prospective Members of Management Team***

The name and position of each member of the IWM management team expected to join following Principal Completion, as well as a brief description of each member's business experience and education is set forth below.

***Gregory Gatesman*** is currently responsible for the oversight of the EMEA, Asia Pacific and Latin America regions of IWM. He previously served as the executive in charge of the integration of the Merrill Lynch and Bank of America Corporation brokerage businesses and has also held roles including Chief Operating Officer U.S. Advisory, President and Chief Operating Officer of Merrill Lynch Trust Company, and Head of Platform for Merrill Lynch U.S. Private Bank. Mr. Gatesman holds a B.A. in Finance from The College of New Jersey and an M.B.A. from Pennsylvania State University's Smeal College of Business.

***Sonia Dula*** is the Head of the Latin America region of IWM. She previously served as Head of Corporate and Investment Banking for Latin America at Bank of America Merrill Lynch. Ms. Dula holds a B.A. from Harvard University and an M.B.A. from Stanford University.

***Michael Benz*** is the Head of Global Wealth and Investment Management in the Asia Pacific region of IWM and is based in Hong Kong. He joined IWM in 2011. He previously held various senior roles at UBS in investment banking and asset management, including his most recent position of Head of Asia Pacific Products & Services. Prior to moving to Hong Kong, he headed UBS's Global Asset Management's European Investment Solutions team in Zurich between 2001 and 2002. Mr. Benz holds an M.B.A. and Ph.D. from the University of St. Gallen.

### Employment and Service Agreements

All current members of the Executive Board have employment contracts. The Chairman and all other members of the Board of Directors have only service contracts. These employment agreements and service contracts contain customary terms such as function and title, place of work, remuneration, allowance compensation, social security, fringe benefits, vacation, insurance, obligation of secrecy, duties and notice period. Other than the benefits provided under traditional Swiss pension fund schemes (except for the members of the Board of Directors who are not entitled to participate in those schemes), none of the employment agreements and/or service contracts of the members of the Board of Directors or Executive Board provide for benefits upon termination.

### Potential Conflicts of Interest

None of the members of the Company's Board of Directors or Executive Board have any private interest or other duties which could potentially conflict with their duties to the Company.

## Corporate Governance Directive and Management Transactions Directive

The Directive on Information relating to Corporate Governance of 1 July 2009 (as amended) of the SIX Swiss Exchange (the "Corporate Governance Directive") applies to issuers whose equity securities are listed on the SIX Swiss Exchange and whose registered office is in Switzerland. The Corporate Governance Directive generally requires issuers to disclose important information on the management and control mechanisms at the highest corporate level or to give specific reasons why this information is not disclosed.

The Directive on the Disclosure of Management Transactions of 1 April 2011 applies to all issuers whose equity securities have a primary listing on the SIX Swiss Exchange. Under the Management Transactions Directive, issuers are required to report transactions conducted by members of their board of directors and senior management in the company's own equity securities, including the exercise of conversion and share acquisition rights, as well as transactions in financial instruments whose price is dependent primarily on the company's own equity securities rights. The rules distinguish between disclosure by the members of the board of directors and senior management to the issuer and the subsequent notification by the issuer to the SIX Swiss Exchange. The members of the board of directors and the senior management must report transactions within two trading days from their execution to the issuer. The issuer has an obligation to notify the SIX Swiss Exchange of these transactions within three trading days after it has received the notification from the member of the board of directors or senior management, respectively. The SIX Swiss Exchange publishes the person's function (executive or non-executive member of the board of directors or member of senior management) but not its name. The publication is made on the SIX Swiss Exchange website on the same trading day as notification is received from an issuer and is accessible by a remote access mechanism for a period of three years.

## No Convictions or Legal Proceedings

As at the date of this Offering Circular, there have been no convictions against any individual who is a member of the Board of Directors or the Executive Board, acting in such capacity, for any major or minor finance or business related crimes in the last five years.

As at the date of this Offering Circular, no legal proceedings have been brought against any individual who is a member of the Board of Directors or the Executive Board by any statutory or regulatory authorities (including designated professional associations) that are on-going or have been concluded with a sanction.

## Interests of the Board of Directors and of the Executive Board on an Individual Basis

The interests of each member of the Board of Directors and Executive Board as at 31 December 2011 in the share capital of the Company, including shareholdings of closely linked parties, together with any options in respect of such share capital, were as follows:

| | As at 31 December 2011 | |
|---|---|---|
| | **Registered Shares** | **Options[1]** |
| **Directors:** | | |
| Daniel J. Sauter | 34,120 | - |
| Gilbert Achermann (joined the Board of Directors in April 2012) | - | - |
| Andreas Amschwand (joined the Board of Directors in April 2012) | - | - |
| Heinrich Baumann | - | - |
| Leonhard H. Fischer | 5,200 | - |
| Claire Giraut | 2,600 | - |
| Gareth Penny | 10,400 | - |
| Charles G.T. Stonehill | 13,000 | - |
| Raymond J. Baer (left the Board of Directors in April 2012) | 1,328,882 | |
| Peter Kuepfer (left the Board of Directors in April 2012) | 91,520 | |
| Total — Board of Directors | 1,485,722 | - |
| **Executive Board:** | | |
| Boris F.J. Collardi | 69,918 | - |
| Dieter A. Enkelmann | 73,533 | - |
| Bernhard Hodler | 17,017 | - |
| Jan A. Bielinski | 33,812 | - |
| Christoph Hiestand | 4,807 | - |
| Bernard Keller | 17,241 | - |
| Total — Executive Board | 216,328 | - |

Note:

(1) None of the members of the Board of Directors or the Executive Board held any options over Julius Baer Group Ltd. shares as at 31 December 2011.

## Remuneration of the Board of Directors and the Executive Board

### Compensation

#### *Chairman*

The Chairman of the Board of Directors has a mandate from the Company to act as the Chairman of the Board of Directors of the Julius Baer Group Ltd. and of Bank Julius Baer & Co. Ltd. His base honorarium, which is paid in quarterly instalments, is ultimately determined by the Compensation Committee and is reviewed regularly based on the complexity of the function in relation to the overall Group structure. In addition to the base honorarium, the Chairman is annually awarded registered shares of the Company in a fixed amount. This component of compensation ensures that the Chairman's compensation is aligned with the long-term value creation of the Julius Baer Group. The shares are tied to a linear vesting schedule (annual instalments of one-third over the course of three years) and forfeiture clauses (corresponding to the clauses of the LTI (as defined herein)). The Chairman is entitled to the registered shares only after the expiration of the vesting period, provided that all other conditions of the plan are met. The registered shares are not permitted to be sold until the third anniversary of the grant date. No forfeiture is applied in case the Chairman resigns at the end of his term or in case he is not re-elected. In such cases, the departing Chairman can elect between (i) having all of his unvested shares vest immediately with immediate release from blocking; and (ii) adhering to the original vesting schedule of three annual instalments.

#### *Members of the Board of Directors*

The compensation of the members of the Board of Directors consists of a base honorarium (covering the period from one Ordinary Annual General Meeting to the next), dependent on each member's function within this corporate body and his/her involvement in the various Board committees, and an allotment of Julius Baer Group Ltd. shares for each year of his/her term on the Board. The allotment of such shares takes place at the time of election and re-election, respectively, and is granted for the entire term. The shares allotted vest linearly over the term of the respective Board member. The number of shares to be granted to the members of the Board of Directors has been fixed at 2,600 shares of the Company per year of term. The shares cannot be disposed of until the third anniversary of the grant date and are subject to vesting and forfeiture clauses.

No options are granted to the members of the Board of Directors.

The base honorarium is regularly reviewed by the Compensation Committee, taking into account respective benchmark analysis (i.e. Swiss financial institutions such as Bank Vontobel and Bank Sarasin) and aggregated data of SMI companies. Respective requests for amendments are forwarded for approval to the complete Board of Directors.

Reflecting the independent status of members of the Board of Directors, the remuneration of members of the Board includes no variable component and is therefore not dependent on the financial performance of the Julius Baer Group. No additional compensation is made for members of the Board of Directors for attending meetings.

None of the Board members has any contract with Julius Baer providing for benefits upon termination of the term of office on the Board of Directors.

The aggregate remuneration paid to directors for the year ended 31 December 2011 was CHF 4,366,818. The highest total remuneration paid to any member of the Board of Directors for the year ended 31 December

2011 was CHF 2,601,609 and consisted of CHF 1,160,000 in base salary, CHF 900,000 in performance payment in cash, CHF 430,596 in share-based payments and CHF 111,013 in pension contributions and varia.

### *CEO and Executive Board*

The compensation of members of the Executive Board, including the Chief Executive Officer, consists of a fixed base salary and a variable compensation payment determined annually (with the character of a one-time payment) based on performance and comprises a cash component and an equity-based incentive with a deferral component as described in "— Incentive Share Plan", and supplementary benefits.

The Compensation Committee of the Board of Directors is responsible for determining the total compensation (and individual components thereof) of the members of the Executive Board.

The fixed base salary is determined on an individual basis taking into consideration the role, tasks and responsibilities and the experience of each member of the Executive Board. Any adjustments are limited to significant changes in job responsibility. Individual performance payments are fundamentally contingent on a performance appraisal based on annually defined goals, guidelines and expectations.

Variable compensation remains an important component of the total compensation of the members of the Executive Board. It is based on Company performance and a clear individual performance review of each member of the Executive Board and his/her managed unit. Performance review criteria include key performance indicators such as revenues, net new money, costs, sound risk management, the realisation of strategic projects, leadership and people development achievements, as well as cross-business contributions to the Group.

Market benchmarks of other Swiss financial institutions such as Bank Sarasin, Bank Vontobel, EFG International and the private banking divisions of UBS and Credit Suisse are taken into account when determining both the fixed base salary and the variable compensation.

There are neither target bonus amounts nor fixed relationships between fixed base salary and performance-related payments. Due to the variability of annual performance payments and awards from equity-based incentives, the ratio of base salary to total compensation can vary significantly from year to year. In 2011, the average ratio of fixed to variable compensation for the members of the Executive Board amounted to 25:75 per cent., compared to 19:81 per cent. in 2010.

Julius Baer considers benefits to be a supplemental element of compensation, and the benefits offered may vary substantially from location to location. In general, there are no special benefits for members of the Executive Board; they receive the same benefits as all other employees in the location and business where they work. The members of the Executive Board (all of whom have an employment relationship in Switzerland) share the same retirement plan benefits as all other employees in Switzerland.

The aggregate compensation paid to the Executive Board for the year ended 31 December 2011 was CHF 12,455,065, including CHF 2,905,175 in base salary, CHF 4,037,568 in cash variable compensation, CHF 2,148,765 in deferred shares, CHF 2,740,527 in deferred performance units and CHF 622,985 in pension fund contribution and varia. The highest total remuneration paid to any member of the Executive Board for the year ended 31 December 2011 was CHF 5,669,264 and consisted of CHF 943,467 in base salary, CHF 2,000,000 in cash variable compensation, CHF 1,333,333 in deferred shares, CHF 1,289,067 in performance units and CHF 103,397 in pension contributions and varia.

### Staff Participation Plan

The Staff Participation Plan of the Julius Baer Group offers employees once a year the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation. The offer price for the 2011 Staff Participation Plan was 25 per cent. below the average weighted market value of the shares of Julius Baer Group Ltd. for the period from 1 March until 11 March 2011.

Movements in shares granted under the Staff Participation Plan are as follows:

| | Year ended 31 December 2011 |
|---|---|
| **Staff Participation Plan** | |
| Number of registered shares taken up | 340,842 |
| Preferential price per share (CHF) | 31.04 |
| Compensation expense (CHF in thousands) | 3,528 |

## Long-Term Incentive Plan

The purpose of the Julius Baer Group Long-Term Incentive Plan (the "LTI") is to strengthen long-term commitment to the Company and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. The LTI is part of the total compensation of the Board of Directors and in some individual cases is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation. In addition, it may be granted in special cases to employees who have a significant influence on the Julius Baer Group's long-term development and financial results.

The LTI runs over a three-year plan period and is applied with two different vesting schedules. Under the first vesting schedule, the participants are granted a number of shares which vest in equal one-third tranches over the period of three years. Under the second vesting schedule, participants are granted a number of shares which cliff-vest in one single tranche at the end of the three-year period.

The shares are transferred to participants at vesting dates, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

| | Year ended 31 December 2011 |
|---|---|
| **Long-Term Incentive Plan** | |
| Unvested shares outstanding, at the beginning of the year | 515,001 |
| Granted during the year | 179,377 |
| Vested during the year | (314,193) |
| Forfeited during the year | (27,033) |
| Unvested shares outstanding, at the end of the year | 353,152 |
| Weighted average fair value per share granted (CHF) | 36.80 |
| Fair value of outstanding shares at the end of the year (CHF 1,000) | 12,975 |

## Premium Share Plan

The Premium Share Plan (the "PSP") is a three-year deferred equity plan which applies to senior members of the staff whose variable compensation amounts to CHF 150,000 or more (or a local equivalent). A PSP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through its share price.

At the start of the plan period, 15 per cent. to 40 per cent. (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the employee's variable incentive is deferred to the PSP, 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 a three-year plan period. 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/her at the plan beginning.

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 Group or caused reputational damage.

The PSP was implemented as part of the variable compensation for 2011.

## Incentive Share Plan

The Incentive Share Plan (the "ISP") applies to the members of the Executive Board and some other key members of staff whose contributions are decisive for the long-term development of the Julius Baer Group and whose variable compensation amounts to CHF 150,000 or more (or a local equivalent). ISP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the pay-out depends on achievement against two key performance indicators over a three-year period:

- Economic Profit, which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

- Relative Share Price, which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

At the start of the plan period, 15 per cent. to 40 per cent. (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the executive's 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.

At the start of the plan period, the executives are also granted one performance unit (a "PU") for each granted ISP share which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period and are settled in the form of Julius Baer Group shares. At settlement the number of these additional shares can be between zero and two times the number of PUs for plan participants other than members of the senior management and of the Executive Board of Bank Julius Baer & Co. Ltd .and zero to four times the number of PUs for members of the senior management and of the Executive Board of Bank Julius Baer & Co. Ltd. The final ratio between the granted PUs and the number of shares at settlement is determined by a final pay-out factor which is derived from the two key performance indicators which both carry equal weight in determining the final pay-out factor.

The plan provides participants with a symmetric upside (capped at 2 or 4) and downside (limited to 0) potential. Including the value development of the PUs the ISP can represent between 15 per cent. and 67 per cent. (77 per cent. for members of the senior management) of the total variable compensation of the executive.

Until vested, the PUs/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 Group or caused reputational damage.

The ISP was applied for the first time to the members of the senior management and selected key staff as part of the variable compensation for 2010. The Compensation Committee approved the list of ISP participants and the individual allocations as part of the variable compensation for 2011 on 23 January 2012.

| | **Year ended 31 December 2011** |
|---|---|
| **Incentive Share Plan** | |
| Unvested shares outstanding, at the beginning of the year | - |
| Granted during the year | 272,020 |
| Vested during the year | - |
| Forfeited during the year | (1,352) |
| Unvested shares outstanding, at the end of the year | 270,668 |
| Weighted average fair value per share granted (CHF) | 43.10 |
| Fair value of outstanding shares at the end of the year (CHF 1000) | 9,944 |

## Options Ownership

None of the members of the Board of Directors (or their closely linked parties) or the Executive Board (or their closely linked parties) held any option positions on Julius Baer Group Ltd. shares as at 31 December 2011.

### Transactions with Members of the Board of Directors and Executive Board

As at 31 December 2011, loans in the amount of CHF 18,720,035 were outstanding to members of the Board of Directors and to closely linked parties of members of the Board of Directors Loans in the amount of CHF 6,239,751 were outstanding to members of the Executive Board and to closely linked parties of members of the Executive Board.

The loans granted to members of the Board of Directors and the Executive Board consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as LIBOR mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the Lombard loans and the mortgage loans granted to members of the Board of Directors are in line with normal market rates at the time the loans were granted.

The interest rates of the Lombard loans granted to members of the Executive Board are in line with normal market rates at the time the loans were granted. Mortgage loans to employees and senior management members of the Group are granted at a discount of 1 per cent. for floating rate mortgage loans, whereas fixed rate mortgage loans are granted at the refinancing rate plus 0.25 per cent. and LIBOR mortgage loans at the refinancing rate plus 0.5 per cent.

Members of the Board of Directors and senior management benefit from preferential staff conditions for transactions (e.g., in securities) executed in-house.

No loans to former members of the Board of Directors (or their closely linked parties) or to former members of the senior management (and their closely linked parties) are outstanding as at 31 December 2011 or have been granted in 2011 under conditions that were not at market rates.

## RELATED PARTY TRANSACTIONS

In the past, we have entered into, and expect to enter into in the future, contractual arrangements with our principal shareholders or companies controlled by them. We believe that our prior and existing transactions and arrangements have been negotiated on an arm's length basis and contain market terms. However, it is possible that we could have obtained better terms from third parties and that our future transactions with related parties will not be entered into on an arm's length basis. During 2011, 2010, 2009 and the six months ended 30 June 2012 and 2011, the amount of our net operating income attributable to transactions entered into with related parties was not material to our results of operations.

For the total amount of loans granted to members of the Board of Directors and Executive Board and which were outstanding as at 31 December 2011, see "Board of Directors and Management — Transactions with Members of the Board of Directors and Executive Board" and Note 21 to our audited consolidated financial statements included elsewhere in this Offering Circular. The guarantee commitments granted by the Group to such individuals was CHF 1.0 million as at 31 December 2011. The guarantee commitments do not expire on a set date, but can be terminated on three months' notice

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. 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.

We also offer private banking services to members of our Board of Directors and Executive Board and largely on the same terms in which we offer such services to our clients but with partial fee discounts and some preferential terms, as is customary in the Swiss banking industry.

The following table sets forth related party transaction information in accordance with IAS 24 for the year ended 31 December 2011:

| | **As at and for the year ended 31 December 2011** |
|---|---|
| | *(CHF in thousands)* |
| **Key management personnel compensation**[(1)] | |
| Salaries and other short-term employee benefits | 11,177 |
| Post-employment benefits | 659 |
| Other long-term benefits | 4 |
| Participation plans | 6,105 |
| Total | 17,945 |
| **Receivables from** | |
| associated companies | – |
| key management personnel | 22,241 |
| Total | 22,241 |
| **Liabilities to** | |
| associated companies | - |

| | As at and for the year ended 31 December 2011 |
|---|---|
| key management personnel | 14,821 |
| own pension funds | 3,104 |
| Total | 17,925 |
| **Credit guarantees to** | |
| key management personnel | 1,024 |
| Total | 1,024 |
| **Income from services provided to** | |
| associated companies | - |
| key management personnel | 522 |
| Total | 522 |

# TAXATION

## Taxation in Switzerland

The following is a general description of certain Swiss tax considerations relating to the Tier 1 Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Tier 1 Bonds, whether in Switzerland or elsewhere (and does not consider any other taxes than those of Switzerland) and does not constitute tax advice.

Prospective purchasers of Tier 1 Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Tier 1 Bonds and receiving payments of interest, principal and/or other amounts under the Tier 1 Bonds and the consequences of such actions under the tax laws of those countries. This summary is based upon the Swiss tax laws as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

## Withholding Tax

For purposes of Swiss Federal Withholding Tax, coupon payments on the Tier 1 Bonds have to be split into (i) an interest payment component and (ii) an option premium component. Payments on the interest component will be subject to Swiss Federal Withholding Tax at a rate of currently 35 per cent. The tax will be deducted by the Company. Payments on the option component will not be subject to Swiss Federal Withholding Tax.

The Holder of a Tier 1 Bond residing in Switzerland who, at the time the payment of interest is due, is the beneficial owner of the payment of interest and duly reports the gross payment of interest in his or her tax return and, as the case may be, income statement, is entitled to a full refund or a full tax credit for the Swiss Federal Withholding Tax.

A Holder of a Tier 1 Bond who is not resident in Switzerland may be able to claim a full or partial refund of the Swiss Federal Withholding Tax by virtue of the provisions of an applicable double taxation treaty.

## Issue and Transfer Stamp Tax, SIX Swiss Exchange Fee

The SIX Swiss Exchange Fee will be borne by the Company.

The issuance of the Tier 1 Bonds at the Placement Price to the initial Holders is exempt from Swiss Transfer Stamp Tax. A subsequent transfer or sale of Tier 1 Bonds is subject to Swiss Transfer Stamp Tax, currently at the rate of up to 0.15 per cent. of the consideration paid if such transfer or sale is made by or through a bank or securities dealer (as defined in the Swiss Federal Stamp Tax Act) resident in Switzerland or Liechtenstein, unless an exemption from Swiss Transfer Stamp Tax applies.

## Income Taxation on Principal or Interest

For purposes of Swiss income tax for Swiss resident individuals holding Tier 1 Bonds as part of their private assets, each coupon payment has to be split into (i) an interest payment component and (ii) an option premium component. Swiss resident individuals holding Tier 1 Bonds as part of their private assets will be subject to Swiss federal income tax (*Direkte Bundessteuer*) on the interest payment component. The interest payment component will further be subject to Swiss Federal Withholding Tax. In contrast, the option premium component represents tax-free capital gain for Swiss resident individuals holding Tier 1 Bonds as part of their private assets and will not be subject to Swiss Federal Withholding Tax. The option premium component of the entire coupon payment is 1.50 per cent. The taxable interest component is the difference between coupon payment and option premium component and, therefore initially amounts to ■ per cent. and will have to be recalculated after reset of the interest rate.

Foreign residents who hold Tier 1 Bonds through a permanent establishment or a fixed place of business in Switzerland and Swiss residents who hold Tier 1 Bonds as part of their business assets will be subject to Swiss federal income tax in respect of periodic interest payments received as well as any other income from the Tier 1 Bonds upon redemption or conversion reflected in their income statement.

The above rules regarding Swiss federal income tax normally also apply to Swiss cantonal/communal income taxes.

Swiss-resident individual taxpayers who hold Tier 1 Bonds as part of Swiss business assets (including individuals, who for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia*, frequent dealing and leveraged investments in securities) and Swiss-resident corporate taxpayers and corporate taxpayers resident abroad holding Tier 1 Bonds as part of a Swiss permanent establishment or a fixed place of business in Switzerland, are required to recognize the payments of interest on Tier 1 Bonds in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period.

Payments of interest and repayment of principal to a Holder of a Tier 1 Bond who is a non-resident of Switzerland and who, during the current taxation year, has not engaged in trade or business through a permanent establishment or fixed place within Switzerland to which the Tier 1 Bonds are attributable and who is not subject to income taxation in Switzerland for any other reason, will not be subject to any Swiss federal, cantonal or communal income tax.

### Income Taxation on Gains on Sales or Redemption

Under current Swiss law, Holders of Tier 1 Bonds residing in Switzerland and who hold the Tier 1 Bonds as private assets and who sell or otherwise dispose of the Tier 1 Bonds during the taxation year realize, in general, either a tax-free capital gain or a tax-neutral capital loss.

Swiss-resident individual taxpayers holding Tier 1 Bonds as part of Swiss business assets and Swiss-resident corporate taxpayers and corporate taxpayers resident abroad holding Tier 1 Bonds as part of a Swiss permanent establishment or a fixed place of business within Switzerland are required to recognize capital gains or losses realized on the sale of a Tier 1 Bond in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, inter alia, frequent dealing and leveraged investments in securities.

A Holder of a Tier 1 Bond who is not resident in Switzerland and who, during the taxation year, is not engaged in trade or business through a permanent establishment or fixed place of business within Switzerland to which the Tier 1 Bonds are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax on gains realized during that year on the sale or redemption of a Tier 1 Bond.

# GENERAL INFORMATION

## Julius Baer Group Ltd.

### Incorporation, Company Name, Registered Office, Register and Legal Form

The Company's legal name is Julius Baer Group Ltd. (Julius Bär Gruppe AG, Julius Baer Groupe SA). The Company was incorporated on 18 June 2009 as a company limited by shares (*Aktiengesellschaft*) established under the laws of Switzerland (Article 620 et seqq. of the Swiss Code of Obligations) for an indefinite period of time and registered in the commercial register of the Canton of Zurich (the "Commercial Register") on 25 June 2009 under the number CH-020.3.033.970-7 and has been assigned the Business Identification Number (UID) CHE-114.934.412. Its current registered office is at Bahnhofstrasse 36, 8001 Zurich, Switzerland. The Company's most recent Articles of Incorporation are dated 11 April 2012.

The Company is a holding company that comprises Bank Julius Baer & Co. Ltd., as principal operating entity, and the other subsidiaries listed in Note 26 of our consolidated financial statements as at and for the years ended 31 December 2011 und 2011.

### Purpose

According to Article 2.1 of the Articles of Incorporation, the main corporate purpose of the Company is the acquisition and management of its permanent participations, particularly in banks and other companies engaged in financial services.

## Share Capital Structure

### Past Corporate Events and Changes to Share Capital

The Company was incorporated on 18 June 2009 by Julius Baer Holding Ltd. (renamed GAM Holding AG) as founder and registered in the Commercial Register on 25 June 2009.

On 1 October 2009, the shares in the Company were distributed to shareholders of Julius Baer Holding Ltd. in the form of a dividend in kind. This distribution was made in connection with the separation of Julius Baer Holding Ltd. into two distinct, independent entities, (i) the Company, whose focus is on servicing and advising private clients; and (ii) GAM Holding Ltd., an independent, leading active asset manager.

As at 31 December 2011, the Company's registered issued share capital amounted to CHF 4.132.615.12, divided into 206,630,756 fully paid-up registered shares with a nominal value of CHF 0.02 each, and the Company's conditional share capital amounted to CHF 200,000 divided into 10,000,000 registered shares, to be fully paid-up, with a nominal value of CHF 0.02 each.

On 11 April 2012, the annual general meeting of the Company resolved on a capital decrease (*Kapitalherabsetzung*) from CHF 4,132,615.12 to CHF 3,927,815.12 by cancelling 10,240,000 registered shares with a nominal value of CHF 0.02., purchased by the Company pursuant to a share buy-back programme, which was active from 23 May 2011 to 28 February 2012. The capital decrease was registered with the Commercial Register on 22 June 2012.

As at 22 June 2012, the Company's registered issued share capital amounted to CHF 3,927,815.12, divided into 196,390,756 registered shares, fully paid-up, with a nominal value of CHF 0.02 each.

### Registered Issued Share Capital immediately prior to the issue of the Tier 1 Bonds

As at the date of this Offering Circular, the Company's registered issued share capital amounted to CHF 3,927,815.12, divided into 196,390,756 registered shares, fully paid-up, with a nominal value of CHF 0.02 each.

### Authorised Share Capital

The Company's Board of Directors will propose to the shareholders in the extraordinary shareholders' meeting of the Company to be held on 19 September 2012 to resolve that authorised share capital (*genehmigtes Aktienkapital*) in the aggregate amount of CHF 750,000.00 be created (by amending the Company's Articles of Incorporation with a new Article 3.5) for the purpose of the partial financing of the acquisition of IWM and to authorise the Board of Directors to implement the respective capital increase until 19 September 2014.

Article 3.5 of the Company's Articles of Incorporation provides that (translated from the German original):

"1. The Board of Directors is entitled, at any time until 19 September 2014, to increase the share capital up to a maximum aggregate nominal amount of CHF 600,000.00 through the issuance of a maximum of 30,000,000 registered shares, each fully paid-up, with a par value of CHF 0.02 each. Partial increases shall be permissible. The newly issued registered shares are subject to the entry limitations as set forth in Article 4.3 et seqq. of the Articles of Incorporation. The respective amount of issuance, the date for entitlement for dividends and the type of contributions shall be determined by the Board of Directors. The Board of Directors may issue new shares also by means of a firm underwriting or otherwise through a banking institution or a syndicate of banks with a subsequent offer of these shares to the shareholders or third parties. The pre-emptive subscription right of the existing shareholders remains directly or indirectly preserved. The Board of Directors may permit pre-emptive subscription rights that have not been exercised to expire or it may place these rights, or shares as to which pre-emptive subscription rights have been granted but not exercised, at market conditions or use them for other purposes in the interest of the Company. The Board of Directors is entitled to determine the further conditions of the pre-emptive subscription rights and their exercise. The authorised share capital must be used exclusively for the partial financing of the acquisition of the International Wealth Management business of Bank of America Merrill Lynch outside the United States."

"2. The Board of Directors is further entitled, at any time until 19 September 2014, to increase the share capital up to the aggregate maximum nominal amount of CHF 150,000.00 through the issuance of a maximum of 7,500,000 registered shares, each fully paid-up, with a par value of CHF 0.02 each. Partial increases shall be permissible. The newly issued registered shares are subject to the entry limitations as set forth in Article 4.3 et seqq. of the Articles of Incorporation. The respective amount of issuance, the date for entitlement for dividends and the type of contributions (including the conversion of freely disposable equity) shall be determined by the Board of Directors. The new shares shall be created either (i) through the subscription by Merrill Lynch & Co., Inc. and/or any companies affiliated with it, or (ii) through subscription by the Company itself (within the limits of Art. 659 et seqq. of the Swiss Code of Obligations), a company affiliated with it or a third person acting in a fiduciary capacity, and shall be used exclusively as consideration for the acquisition of the International Wealth Management business of Bank of America Merrill Lynch outside the United States. The pre-emptive subscription right of the shareholders is excluded."

### Conditional Share Capital

The Company's Articles of Incorporation currently provide for a conditional share capital (*bedingtes Aktienkapital*) of CHF 200,000, divided into 10,000,000 registered shares, to be fully paid-up, with a nominal value of CHF 0.02 each.

Article 3.4 of the Articles of Incorporation reads as follows (translated from the German original):

“The Company’s share capital is to be increased by the issue of up to 10,000,000 registered shares, to be fully paid-up and each with a par value of CHF 0.02, in a maximum total amount of CHF 200,000 through the exercise of conversion or warrant rights in connection with bonds issued by the Company or its subsidiaries. Existing shareholders are excluded from subscription rights. The acquisition of shares through the exercise of conversion or warrant rights and the subsequent transfer of shares are subject to the entry limitations as set forth in article 4.3 et seqq. of the Articles of Incorporation.

When issuing convertible or warrant bonds, the Board of Directors may rescind priority subscription rights of existing shareholders for important reasons.

Important reasons can be the securing of optimal conditions in the issuance of loans and ensuring equal treatment of shareholders domestically and abroad.

In the event that the Board of Directors precludes the priority subscription rights, the following applies:

- Conversion rights may be exercisable only during a maximum of seven years, and warrant rights only during a maximum of four years from the date of issue of the relevant bond.
- The new shares shall be issued according to the applicable conversion or warrant conditions. The convertible or warrant bonds must be issued in conformity to market conditions (including the usual market conditions with regard to protection against dilution). The conversion or option price must be not less than the average of the last prices paid on the Zurich stock exchange during the five days preceding the determination of the final issue conditions for the relevant convertible or warrant bonds”.

At the date of this Offering Circular, no shares out of the Company’s conditional capital have been issued. Application has been made to, and approval has been given by, the SIX Swiss Exchange to formally list according to the Main Standard of the SIX Swiss Exchange 10,000,000 additional registered shares with a nominal value of CHF 0.02 each that may be issued under the conditional share capital of the Company.

### Own Equity Securities

As at the date of this Offering Circular, companies within Julius Baer Group held 2,120,306 registered shares equalling 1.08 per cent. of the Company’s registered issued share capital (including the shares in the Company held by the Group in the course of ordinary banking activities).

### Description of the Shares and Voting Rights

The Shares are registered shares (*Namenaktien*) with a nominal value of CHF 0.02 each. The Shares are fully paid-up and non-assessable.

Each Share carries one vote at any shareholders’ meeting. Voting rights may be exercised only after a shareholder has been registered in the Company’s share register (*Aktienbuch*) as a shareholder with voting rights. The Shares rank *pari passu* in all respects with each other, including in respect of voting rights, entitlement to dividends, share of the liquidation proceeds in the case of a liquidation of the Company, and pre-emptive rights (*Bezugsrechte*). The Company does not have any shares carrying preferential rights.

## Form and Transfer of Shares

The Shares are registered shares and are issued as uncertificated securities (*Wertrechte*), and registered as intermediated securities (*Bucheffekten*) in the main register (*Hauptregister*) with SIX SIS Ltd. The Company has reserved the right to withdraw Shares issued as intermediated securities from the respective custodian systems in its Articles of Incorporation. Shareholders have no rights to request the printing and delivery of certificates or the conversion of the Shares into another form. The Company may, however, at any time print and deliver certificates (individual share certificates, certificates or global certificates) or convert the Shares in another form and cancel issued certificates (if any).

Shareholders registered in the Company's share register may at any time request from the Company a confirmation evidencing his or her shareholding.

Pursuant to Article 4.3 para. 4 of the Articles of Incorporation, any transfer of the Shares, including the granting of securities on Shares is subject to the Intermediated Securities Act of 30 October 2008 (*Bucheffektengesetz*). The transfer of uncertificated Shares by way of an assignment must be notified to the Company in order to be effective.

The transferee of Shares must file a share registration form in order to be registered in the Company's share register as a shareholder with voting rights. Failing such registration, the transferee may not vote at or participate in any shareholders' meeting but may still receive dividends and other rights with financial value.

According to the Articles of Incorporation, a transferee of Shares will be recorded in the Company's share register upon request. The Company may refuse to record a transferee in the share register as a shareholder with voting rights if the transferee does not expressly state that he has acquired the Shares in his own name and for his own account.

Fiduciaries and nominees may be entered as a shareholder in the share register with voting rights for Shares up to a maximum of 2 per cent. of the share capital. Shares held by a fiduciary and nominee that exceed this limit may be registered in the share register with voting rights if such fiduciary and nominee discloses to the Company the name, address, nationality or registered office and shareholdings of any person or legal entity for whose account it is holding 0.5 per cent. or more of the share capital. Fiduciaries and nominees that are affiliated with other fiduciaries and nominees by means of ownership structure or voting rights or that have a common management or are otherwise affiliated are deemed to be one fiduciary and nominee as regards the application of such entry limitations.

The Board of Directors may cancel the entry in the share register of a shareholder or fiduciary and nominee with voting rights, upon a hearing of such shareholder or fiduciary and nominee if the entry in the share register is based on false information. The affected shareholder or fiduciary and nominee must be notified of the cancellation immediately.

## Independent Auditors

The Company's statutory auditors are KPMG AG, Badenerstrasse 172, 8004 Zurich, Switzerland. KPMG AG is a member of the Swiss Institute of Certified Accountants and Tax Consultants. Our audited consolidated financial statements as at and for the year ended 31 December 2011, which contain the consolidated financial statements for the year ended 31 December 2011 and the related 2010 comparatives, our audited consolidated financial statements as at and for the year ended 31 December 2010, which contain the consolidated financial statements for the year ended 31 December 2010 and the related 2009 comparatives, and our audited statutory financial statements as at and for the year ended 31 December 2011, which contain the statutory financial statements for the year ended 31 December 2011 and the related 2010 comparatives, have been audited by KPMG AG, independent accountants, as stated in their reports appearing herein. KPMG AG's business address is Badenerstrasse 172, 8004 Zurich, Switzerland. KPMG AG is a member of the Swiss Institute of Certified Accountants and Tax Consultants.

## Ratings

The Company has been assigned by Moody's the following ratings:

| Rating class detail | Rating[(1)] | Date |
|---|---|---|
| Long-term issuer rating (domestic)..................................... | A2 | 15 August 2012 |
| Senior subordinated (domestic) .......................................... | Baa1 | 15 August 2012 |
| Preferred stock non-cumulative (domestic) ........................ | Baa3 | 15 August 2012 |

Note:

(1) The Ratings are currently “under review”.

The Tier 1 Bonds have not been and will not be rated.

## Notices

According to the Articles of Incorporation, official notices of the Company to the Shareholders are to be published in the *Swiss Official Gazette of Commerce* (*Schweizerisches Handelsamtsblatt*). Notices from the Company to registered shareholders shall be sent by letter to the addresses entered in the share register. Additionally, notices required under the Listing Rules will be published on the website of the SIX Swiss Exchange (http://www.six-exchange-regulation.com), or otherwise in compliance with the Listing Rules.

All notices regarding the Tier 1 Bonds are to be published by the Principal Paying Agent on behalf and at the expense of the Company (i) on the internet site of the SIX Swiss Exchange (where notices are currently published under the address http://www.six-swiss exchange.com/bonds/issuers/official_notices/search_en.html) or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

## Authorisation

Pursuant to a resolution of the Board of Directors of the Company dated 20 August 2012 and a bond purchase agreement dated ■ 2012 among the Company, Credit Suisse AG, Zürcher Kantonalbank, Bank Julius Baer & Co Ltd. and Bank Sarasin & Co. Ltd., acting in its own name, but for the account of (*als indirekter Stellvertreter von*) the banks included in the “Gruppe deutschschweizerischer Privatbankiers” (together the “Syndicate Banks”), the Company has decided to issue the Tier 1 Bonds through the intermediary of the Syndicate Banks.

## Fiscal Year

The fiscal year of the Company commences on 1 January and ends on 31 December of each calendar year.

## Historical Dividend Information

The following table sets forth the total ordinary dividends paid by the Company in respect of each year since its incorporation:

| Fiscal Year | Total dividends | Dividends per Share |
|---|---|---|
| | *(CHF in millions)* | *(CHF)* |
| 2009 | 83 | 0.40 |
| 2010 | 124[(1)] | 0.60 |
| 2011 | 199[(1)] | 1.00[(2)] |

Notes:

(1) Paid out of reserves from capital contributions (*Reserven aus Kapitaleinlagen*).

(2) Includes a dividend of CHF 0.60 per Share and a special dividend of CHF 0.40 per Share.

## No Material Change

Other than as disclosed in this Offering Circular, there has been no material change in the assets and liabilities, financial position and profits and losses of the Company since 30 June 2012.

## Recent Developments

Trading at Julius Baer Group to the date of this Offering Circular has been largely in line with the expectations of our management since the publication of its results for the six months ended 30 June 2012.

## Principal Paying Agent

Credit Suisse AG, Paradeplatz 8, 8001 Zurich, Switzerland, serves as principal paying agent (*Hauptzahlstelle*) for the Tier 1 Bonds of the Company.

## Representative

In accordance with the Article 43 of the Listing Rules of the SIX Swiss Exchange, Credit Suisse AG has been appointed by the Company as representative to lodge the listing application with SIX Swiss Exchange.

## Responsibility

The Company confirms that this Offering Circular contains all information regarding the Company and the Tier 1 Bonds which is (in the context of the issue of the Tier 1 Bonds) material; such information is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Company are honestly held or made and are not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and reasonable enquiries have been made to ascertain and to verify the foregoing. The Company accepts responsibility accordingly.

## Applicable Law and Jurisdiction

This Offering Circular is subject to Swiss law. Any disputes arising under or in connection with this Offering Circular shall be settled by the courts of the City of Zurich or, if permitted, by the Commercial Court of the Canton of Zurich, Switzerland, venue being Zurich 1.

## Information Policy

The Company provides information to its shareholders and the public by means of annual and half-year reports and interim management statements. It also publishes press releases, presentations and brochures as needed. The documents are generally available to the public in electronic form on the website of the Company (http://www.juliusbaer.com) as well as in printed form. Current publication dates can be found online on the website of the Company (http://www.juliusbaer.com).

# INDEX TO FINANCIAL STATEMENTS

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## Julius Baer Group Ltd.

### *Consolidated Financial Statements as at and for the years ended 31 December 2011 and 2010 (prepared in accordance with IFRS)*

# Consolidated financial statements
## Consolidated income statement

| | Note | 2011 CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|---|
| Interest income | | **636 640** | 519 477 | 22.6 |
| Interest expense | | **104 014** | 64 104 | 62.3 |
| Net interest income | 1 | **532 626** | 455 373 | 17.0 |
| Fee and commission income | | **1 137 330** | 1 197 095 | -5.0 |
| Commission expense | | **195 342** | 216 725 | -9.9 |
| Net fee and commission income | 2 | **941 988** | 980 370 | -3.9 |
| Net trading income | 3 | **268 680** | 332 340 | -19.2 |
| Other ordinary results | 4 | **9 393** | 26 297 | - |
| **Operating income** | | **1 752 687** | 1 794 380 | -2.3 |
| Personnel expenses | 5 | **811 919** | 823 740 | -1.4 |
| General expenses | 6 | **444 248** | 376 009 | 18.1 |
| Depreciation of property and equipment | 13 | **30 347** | 28 449 | 6.7 |
| Amortisation of customer relationships | 13 | **91 980** | 91 606 | 0.4 |
| Amortisation of other intangible assets | 13 | **55 399** | 40 324 | 37.4 |
| **Operating expenses** | | **1 433 893** | 1 360 128 | 5.4 |
| **Profit before taxes** | | **318 794** | 434 252 | -26.6 |
| Income taxes | 7 | **60 657** | 81 483 | -25.6 |
| **Net profit** | | **258 137** | 352 769 | -26.8 |

| | | | | |
|---|---|---|---|---|
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | | **257 916** | 351 992 | -26.7 |
| Non-controlling interests | | **221** | 777 | - |
| | | **258 137** | 352 769 | -26.8 |

| | Note | 2011 CHF | 2010 CHF | Change % |
|---|---|---|---|---|
| **Share information** | | | | |
| Basic net profit per share | 8 | **1.27** | 1.71 | -25.5 |
| Diluted net profit per share | 8 | **1.27** | 1.71 | -25.7 |
| Dividend proposal 2011 and dividend 2010 | | **0.60** | 0.60 | - |
| Special dividend proposal 2011 | | **0.40** | - | - |

# Consolidated statement of comprehensive income

| | 2011<br>CHF 1000 | 2010<br>CHF 1000 |
|---|---|---|
| **Net profit recognised in the income statement** | **258 137** | 352 769 |
| Other comprehensive income (net of taxes): | | |
| Net unrealised gains/(losses) on financial investments available-for-sale | **-36 072** | 12 604 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | **19 008** | 18 283 |
| Hedging reserve for cash flow hedges | **-5 164** | 977 |
| Translation differences | **-6 101** | -29 281 |
| **Other comprehensive income for the year recognised directly in equity** | **-28 329** | 2 583 |
| **Total comprehensive income for the year recognised in the income statement and in equity** | **229 808** | 355 352 |
| Attributable to: | | |
| Shareholders of Julius Baer Group Ltd. | **229 587** | 354 575 |
| Non-controlling interests | **221** | 777 |
| | **229 808** | 355 352 |

# Consolidated balance sheet

| | Note | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | | **4 241 500** | 1 121 310 | 3 120 190 |
| Due from banks | 9 | **10 048 079** | 6 586 620 | 3 461 459 |
| Loans | 9 | **16 408 410** | 14 570 410 | 1 838 000 |
| Trading assets | 10 | **4 920 161** | 3 751 967 | 1 168 194 |
| Derivative financial instruments | 24 | **2 113 956** | 2 713 110 | -599 154 |
| Financial assets designated at fair value | | **-** | 1 006 134 | -1 006 134 |
| Financial investments available-for-sale | 11 | **12 168 015** | 13 885 105 | -1 717 090 |
| Investments in associates | 12 | **48 504** | - | 48 504 |
| Property and equipment | 13 | **366 103** | 371 803 | -5 700 |
| Goodwill and other intangible assets | 13 | **1 706 895** | 1 797 777 | -90 882 |
| Accrued income and prepaid expenses | | **192 133** | 174 646 | 17 487 |
| Deferred tax assets | 18 | **12 395** | 10 074 | 2 321 |
| Other assets | | **136 699** | 297 645 | -160 946 |
| Assets held for sale | 27 | **565 806** | - | 565 806 |
| **Total assets** | | **52 928 656** | 46 286 601 | 6 642 055 |

| | Note | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Due to banks | | **5 670 182** | 4 251 834 | 1 418 348 |
| Due to customers | | **34 841 168** | 28 846 738 | 5 994 430 |
| Trading liabilities | 10 | **814 077** | 800 882 | 13 195 |
| Derivative financial instruments | 24 | **2 116 046** | 2 772 368 | -656 322 |
| Financial liabilities designated at fair value | 16 | **3 494 592** | 4 160 559 | -665 967 |
| Debt issued | 17 | **475 829** | 240 210 | 235 619 |
| Accrued expenses and deferred income | | **322 753** | 349 505 | -26 752 |
| Current tax liabilities | | **19 656** | 44 834 | -25 178 |
| Deferred tax liabilities | 18 | **117 211** | 121 893 | -4 682 |
| Provisions | 19 | **54 051** | 32 196 | 21 855 |
| Other liabilities | | **127 434** | 181 535 | -54 101 |
| Liabilities held for sale | 27 | **565 444** | - | 565 444 |
| Total liabilities | | **48 618 443** | 41 802 554 | 6 815 889 |
| Share capital | | **4 133** | 4 133 | - |
| Retained earnings | | **4 717 195** | 4 581 923 | 135 272 |
| Other components of equity | | **-110 107** | -81 778 | -28 329 |
| Treasury shares | | **-302 948** | -22 472 | -280 476 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | | **4 308 273** | 4 481 806 | -173 533 |
| Non-controlling interests | | **1 940** | 2 241 | -301 |
| Total equity | | **4 310 213** | 4 484 047 | -173 834 |
| **Total liabilities and equity** | | **52 928 656** | 46 286 601 | 6 642 055 |

# Consolidated statement of changes in equity

| | Share capital<br>*CHF 1000* | Retained earnings [1]<br>*CHF 1000* |
|---|---|---|
| At 1 January 2010 | 4 133 | 4 312 902 |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | - | 351 992 |
| Net profit attributable to non-controlling interests | - | - |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Total other comprehensive income | - | - |
| Total comprehensive income | - | 351 992 |
| Dividends | - | -82 652 |
| Dividend income on own shares | - | 220 |
| Share-based payments expensed for the year | - | 17 296 |
| Share-based payments vested | - | -17 537 |
| Changes in derivatives on own shares | - | -421 |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | 123 |
| At 31 December 2010 | 4 133 | 4 581 923 |
| **At 1 January 2011** | **4 133** | **4 581 923** |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | - | **257 916** |
| Net profit attributable to non-controlling interests | - | - |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Total other comprehensive income | - | - |
| Total comprehensive income | - | **257 916** |
| Dividends | - | **-123 978** |
| Dividend income on own shares | - | **856** |
| Share-based payments expensed for the year | - | **19 347** |
| Share-based payments vested | - | **-12 056** |
| Changes in derivatives on own shares | - | **-1 212** |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | **-5 601** |
| **At 31 December 2011** | **4 133** | **4 717 195** |

[1] Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the share premium reserve/capital contribution reserve of Julius Baer Group Ltd.

| Other components of equity | | | | | | |
|---|---|---|---|---|---|---|
| Financial investments available-for-sale, net of taxes *CHF 1000* | Hedging reserve for cash flow hedges, net of taxes *CHF 1000* | Translation differences *CHF 1000* | Treasury shares *CHF 1000* | Equity attributable to shareholders of Julius Baer Group Ltd. *CHF 1000* | Non-controlling interests *CHF 1000* | **Total equity** *CHF 1000* |
| -65 239 | -1 063 | -18 059 | -42 622 | 4 190 052 | 1 739 | 4 191 791 |
| - | - | - | - | 351 992 | - | 351 992 |
| - | - | - | - | - | 777 | 777 |
| 12 604 | 977 | - | - | 13 581 | - | 13 581 |
| 18 283 | - | - | - | 18 283 | - | 18 283 |
| - | - | -29 281 | - | -29 281 | - | -29 281 |
| 30 887 | 977 | -29 281 | - | 2 583 | - | 2 583 |
| 30 887 | 977 | -29 281 | - | 354 575 | 777 | 355 352 |
| - | - | - | - | -82 652 | -275 | -82 927 |
| - | - | - | - | 220 | - | 220 |
| - | - | - | - | 17 296 | - | 17 296 |
| - | - | - | 17 537 | - | - | - |
| - | - | - | 18 225 | 17 804 | - | 17 804 |
| - | - | - | -142 469 | -142 469 | - | -142 469 |
| - | - | - | 126 857 | 126 980 | - | 126 980 |
| -34 352 | -86 | -47 340 | -22 472 | 4 481 806 | 2 241 | 4 484 047 |
| **-34 352** | **-86** | **-47 340** | **-22 472** | **4 481 806** | **2 241** | **4 484 047** |
| **-** | **-** | **-** | **-** | **257 916** | **-** | **257 916** |
| **-** | **-** | **-** | **-** | **-** | **221** | **221** |
| **-36 072** | **-5 164** | **-** | **-** | **-41 236** | **-** | **-41 236** |
| **19 008** | **-** | **-** | **-** | **19 008** | **-** | **19 008** |
| **-** | **-** | **-6 101** | **-** | **-6 101** | **-** | **-6 101** |
| **-17 064** | **-5 164** | **-6 101** | **-** | **-28 329** | **-** | **-28 329** |
| **-17 064** | **-5 164** | **-6 101** | **-** | **229 587** | **221** | **229 808** |
| **-** | **-** | **-** | **-** | **-123 978** | **-523** | **-124 501** |
| **-** | **-** | **-** | **-** | **856** | **-** | **856** |
| **-** | **-** | **-** | **-** | **19 347** | **-** | **19 347** |
| **-** | **-** | **-** | **12 056** | **-** | **-** | **-** |
| **-** | **-** | **-** | **3 493** | **2 281** | **-** | **2 281** |
| **-** | **-** | **-** | **-468 837** | **-468 837** | **-** | **-468 837** |
| **-** | **-** | **-** | **172 812** | **167 211** | **-** | **167 211** |
| **-51 416** | **-5 250** | **-53 441** | **-302 948** | **4 308 273** | **1 940** | **4 310 213** |

# Consolidated statement of cash flows

| | **2011** CHF 1000 | 2010 CHF 1000 |
|---|---|---|
| Net profit | **258 137** | 352 769 |
| 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 | **30 346** | 28 449 |
| - Amortisation of intangible assets | **147 380** | 131 930 |
| - Allowance for credit losses | **29 607** | 10 535 |
| - Income from investment in associates | **-1 101** | - |
| - Deferred tax expense/(benefit) | **-1 681** | -5 028 |
| - Net loss/(gain) from investing activities | **41 130** | 21 872 |
| - Other non-cash income and expenses | **22 875** | 20 393 |
| Net increase/decrease in operating assets and liabilities: | | |
| - Net due from/to banks | **1 466 515** | 590 987 |
| - Trading portfolios and derivative financial instruments | **-1 217 331** | -797 640 |
| - Loans/due to customers | **4 122 884** | -3 454 763 |
| - Accrued income, prepaid expenses and other assets | **143 031** | -161 439 |
| - Accrued expenses, deferred income, other liabilities and provisions | **-58 861** | -18 873 |
| Adjustment for income tax expenses | **62 338** | 86 511 |
| Income taxes paid | **-87 530** | -60 985 |
| Cash flow from operating activities after taxes | **4 957 739** | -3 255 282 |
| Purchase of property and equipment and intangible assets | **-88 373** | -96 959 |
| Disposal of property and equipment and intangible assets | **7 567** | 17 235 |
| Net (investment in)/divestment of financial investments available-for-sale | **-993 456** | -1 935 187 |
| Acquisition of subsidiaries, net of cash acquired | **-** | -233 857 |
| Acquisition of associates | **-52 235** | - |
| Cash flow from investing activities | **-1 126 497** | -2 248 768 |
| Net money market instruments issued/(repaid) | **-6 516** | -13 292 |
| Net movements in treasury shares and own equity derivative activity | **-302 022** | -857 |
| Dividend payments | **-123 978** | -82 652 |
| Issuance and repayment of financial liabilities designated at fair value | **340 167** | 175 304 |
| Issuance of lower tier 2 bond | **242 135** | - |
| Dividend payment to non-controlling interests | **-523** | -275 |
| Cash flow from financing activities | **149 263** | 78 228 |
| **Total** | **3 980 505** | -5 425 822 |
| Cash and cash equivalents at the beginning of the year | **13 263 110** | 18 390 505 |
| Cash flow from operating activities after taxes | **4 957 739** | -3 255 282 |
| Cash flow from investing activities | **-1 126 497** | -2 248 768 |
| Cash flow from financing activities | **149 263** | 78 228 |
| Effects of exchange rate changes | **73 678** | 298 427 |
| **Cash and cash equivalents at the end of the year** | **17 317 293** | 13 263 110 |

Cash and cash equivalents are structured as follows:

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| Cash | **4 241 500** | 1 121 310 |
| Money market instruments | **3 421 289** | 5 993 113 |
| Due from banks (original maturity of less than three months) | **9 654 504** | 6 148 687 |
| **Total** | **17 317 293** | 13 263 110 |

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| **Additional information** | | |
| Interest received | **482 413** | 424 265 |
| Interest paid | **-107 592** | -53 631 |
| Dividends on equities received | **103 428** | 68 648 |

# Summary of significant accounting policies

## Basis of accounting

Julius Baer Group Ltd. is a Swiss corporation which was established in 2009 as a result of the separation of the private banking and asset management businesses of the former Julius Baer Holding Ltd. The consolidated financial statements as at 31 December 2011 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 3 February 2012. In addition, they must be approved by the Ordinary Annual General Meeting on 11 April 2012.

Amounts in the annual 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.

## 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 discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), deferred tax assets (use of tax losses), share-based payments, goodwill and other intangible assets (measurement of recoverable amount).

## Accounting policies

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

### Subsidiaries and associates

Subsidiaries in which Julius Baer Group Ltd. directly or indirectly owns a majority of the voting shares or in which it exercises control in some other way are fully consolidated. A complete list of these companies is provided in Note 26. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

Companies in which Julius Baer Group Ltd. holds between 20% and 50% of the voting shares and/or in which it has the ability to exercise significant influence are reported in the consolidated financial statements using the equity method. These companies are initially recorded at cost as of the date of acquisition. Subsequently, the carrying amount is increased or decreased to recognise the Group's share of the associate's profits or losses.

The effects of all intercompany transactions and balances are eliminated on consolidation.

### Foreign currency translation

The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

| | Year-end rates | | Average exchange rates for the year | |
|---|---|---|---|---|
| | **31.12.2011** | 31.12.2010 | **2011** | 2010 |
| USD/CHF | **0.9351** | 0.9321 | **0.8805** | 1.0365 |
| EUR/CHF | **1.2139** | 1.2505 | **1.2310** | 1.3690 |
| GBP/CHF | **1.4533** | 1.4594 | **1.4170** | 1.5985 |

**Reporting of transactions**

Money market transactions are recorded in the balance sheet on settlement date. Spot foreign exchange and securities transactions and securities underwriting transactions are recorded in the balance sheet on trade date. All financial instruments are assigned to one of the four categories (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) and uniformly recognised within these categories on trade date or settlement date.

**Income recognition**

Income from services 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 and loans**

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

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

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

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

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

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

If securities are transferred in a securities lending or borrowing transaction, cash collateral received is recognised as an obligation, and cash collateral provided is recognised as a receivable.

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 collateral provided or received.

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.

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 income.

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

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

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

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

In addition, the Group reports assets and liabilities related to investment contracts where the beneficiary bears all the related risk and rewards from the investments, as designated at fair value.

**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. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net trading income.

The Group uses derivative financial instruments for hedging the cash flows (cash flow hedges) or fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their settlement 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 cash flow hedges are recognised in other comprehensive income and reported as hedging reserve for cash flow hedges. If a hedge of a probable forecast transaction results in the recognition of a financial asset or financial liability, any gain or loss on the hedging instrument that was previously recognised in other components of equity is reclassified into the income statement in the same period in which the financial asset or liability affects income. If the hedged forecast transaction results in direct recognition through the income statement, any related cumulative gain or loss previously recognised in other components of equity is recognised in the income statement in the same period in which the hedged forecast transaction affects income.

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.

Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They 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 recognised 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 initial 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 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 provision for reinstatement costs is recognised to reflect the obligation incurred. The reinstatement costs are recognised in the income statement through depreciation of the capitalised leasehold improvements over their useful life.

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

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 plus the recognised amount of any non-controlling interests in the acquiree, 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. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

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

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

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

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

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

**Provisions**
A provision is recognised if, as a result of a past event, the Group has a legal or constructive present obligation existing on the balance sheet date that will probably lead to an outflow of resources and whose amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation as at

the balance sheet date, taking into account the risks and uncertainties related to the obligation. The recognition and release of provisions are recorded in the income statement through general expenses.

Restructuring provisions in the event of sale or termination of a line of business, closure or relocation of business locations, changes in management structure or another fundamental reorganisation are recognised if a constructive obligation is incurred and a detailed and formal restructuring plan exists. In addition, the implementation must have begun or the announcement of the main features to the employees affected must have taken place before the balance sheet date. Restructuring provisions include only necessary direct expenditures caused by the restructuring, not costs associated with the ongoing business activities.

**Income taxes**

Income tax expense comprises current and deferred taxes. 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 other components of equity.

**Post-employment benefits**

The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit pension plans.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. The organisation, management and financing of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations. 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 financed through employer and employee contributions.

In the case of defined benefit pension plans, the pension expenses and obligations are valued according to the projected unit credit method. The corresponding calculations are carried out by independent qualified actuaries.

Defined benefit assets are only recognised in the balance sheet if they are available to the Group as refunds or future reductions in contributions.

The pension expenses recognised in the income statement for the defined benefit pension plans correspond to the actuarially determined pension cost minus the employee contributions and are recorded in personnel expenses.

A portion of actuarial gains and losses are recognised if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period are in excess of 10% of the greater of the present value of the plan obligation or the fair value of plan assets. This portion is systematically amortised through the income statement over the expected average remaining service lives of employees participating in the plan.

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

**Share-based payments**
The Group maintains various share-based payment plans in the form of share or share option 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.

Share-based payment plans that are settled in own equity instruments (shares or options) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments. Share-based payment plans that are settled by the payment of cash are recognised as a liability and are adjusted through the income statement for changes in fair value of the underlying equity instruments until final settlement.

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

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

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

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

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

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

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

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

**Changes in accounting policies**

The Group applied the following new and revised accounting standards for the first time in 2011:

**IAS 24 – Related Party Disclosure**
The revised standard provides a simplified definition of related parties by clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard had no impact on the Group's financial statements.

**Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)**
The updated interpretation provides guidance on assessing the amount of surplus that can be recognised as an asset in the case of prepayments made by the employer to the pension plan. Such amounts reduce the future minimum funding requirement contributions for future services. The updated interpretation had no material impact on the Group's financial statements.

**Improvements to IFRSs**
A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments had no material impact on the Group's financial statements.

**New standards and interpretations not yet adopted**

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

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

**Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)**
The amendments require entities to present separately the items within other comprehensive income (OCI) that at some point may be reclassified to (recycled through) the income statement from those that would never be reclassified. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements, including or excluding related tax.

The amended standard will be effective 1 January 2013. Early application is permitted.

**IAS 19 – Employee Benefits (amended 2011)**
The amended standard includes the following main changes to the previous requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change removes the corridor method and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in the income statement;
- expected return on plan assets recognised in the income statement is calculated based on the rate used to discount the defined benefit obligation (elimination of the expected return on plan assets); and
- past service cost, curtailments and settlements are recognised immediately in the income statement.

The revised standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IAS 27 – Separate Financial Statements (2011)**
The previous IAS 27 – Consolidated and Separate Financial Statements has been amended due to the release of IFRS 10 – Consolidated Financial Statements. IAS 27 carries forward the existing accounting for separate financial statements, with some minor clarifications.

The amended standard will be effective 1 January 2013. Early application is permitted.

**IAS 28 – Investments in Associates and Joint Ventures (2011)**
The previous IAS 28 – Investments in Associates has been amended due to the release of IFRS 11 – Joint Arrangements. Some minor clarifications have been added.

The amended standard will be effective 1 January 2013. Early application is permitted.

**Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**
The amendment clarifies the existing standard in two areas. The first one states that, in addition to being legally enforceable in the normal course of business, a right of set-off must be enforceable for all counterparties in the event of default, insolvency or bankruptcy. The second clarification states that some gross settlement systems may be considered equivalent to net settlement.

The amended standard will be effective 1 January 2014. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)**
The new disclosure requirements enable the users to a) understand the relationship between transferred financial assets (e.g. securitisations) that are not derecognised in their entirety and the associated liability; and b) evaluate the nature of, and the risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment does not change the existing derecognition requirements. The revised standard will be effective for annual periods beginning on or after 1 July 2011.

**Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**
The new disclosure requirements enable the users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

The amended standard will be effective 1 January 2013.

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

- all recognised financial assets are measured at either amortised cost or fair value;
- only a debt instrument that (a) is held within a business model whose objective is to collect the contractual cash flows and (b) has contractual cash flows that are solely payments of principal and interest may be measured at amortised cost;
- if a debt instrument measured at amortised cost is derecognised prior to maturity, the gain or loss has to be presented separately in the income statement, with an analysis of that gain or loss and the reasons for the sale;
- for debt instruments, classification as trading (i.e. at fair value) and a fair value option are available;
- equity instruments are to be measured at fair value, with the default recognition of gains and losses recognised in the income statement;
- equity instruments designated as at fair value through other comprehensive income: only if an equity instrument is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (equity), without any subsequent reclassification to the income statement (i.e. the current requirement to perform an assessment of impairment and to reclassify cumulative gains and losses on disposal no longer applies).

The new standard will be effective 1 January 2015. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 9 – Financial Instruments: Financial Liabilities**
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.

The new standard will be effective 1 January 2015. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 10 – Consolidated Financial Statements**
IFRS 10 provides a single basis for consolidation based on control, irrespective of the nature of the investee. The following three elements constitute control:

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

An investor must possess all three elements to conclude it controls an investee. The assessment is based on all facts and circumstances and is reassessed as facts and circumstances change.

Power exists when the investor has existing rights that give the current ability to direct the activities that significantly affect the investee's return. Power most commonly arises through voting rights, but can also arise through contractual arrangements. Rights to direct the relevant activities are based on the ability to direct the relevant activities, i.e. they do not need to be exercised to provide an investor power. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding in comparison to other holdings, together with voting patterns at shareholder meetings.

The new standard introduces guidance on assessing whether an entity with decision-making rights is principal or agent. An agent has been engaged to act on behalf, and for the benefit, of another party (principal).

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 11 – Joint Arrangements**
The new standard focuses on the rights and obligations of joint arrangements rather than on the legal form. It distinguishes between joint operations (in which each operator recognises its own share in the balance sheet and income statement) and joint ventures (which are to be accounted for under the equity method in the consolidated financial statements).

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 12 – Disclosure of Interests in Other Entities**
This new standard contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate a) the nature of, and risks associated with, an entity's interests in other entities; and b) the effects of those interests on the entity's financial position, financial performance and cash flows. In addition, an entity should disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control or significant influence.

The new standard will be effective 1 January 2013. Early application is permitted.

**IFRS 13 – Fair Value Measurement**
The new standard a) defines fair value; b) sets out in a single IFRS a framework for measuring fair value; and c) requires disclosures about fair value measurements. It applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements based on fair value or disclosures about those measurements, e.g. fair value less costs to sell).

The IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

The new standard will be effective 1 January 2013. Early application is permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

# Comment on risk and capital management
## Risk management framework and process

### Risk types

For the purposes of this report, risk is defined as the product of the probability of a given event occurring and the extent to which its occurrence could potentially result in an adverse deviation from the Group's defined objectives. 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 Julius Baer Group (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 (excluding legal and compliance risk). He coordinates his activities with the GC, who is responsible for the management and control of legal and compliance risk. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance sheet management and capital management, i.e. the maintenance of a sound ratio of eligible capital to risk-weighted positions.

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 Chairman's and Risk Committee's 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 of Julius Baer

Group Ltd. and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for 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 Group's operational risk directives.

The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives.

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

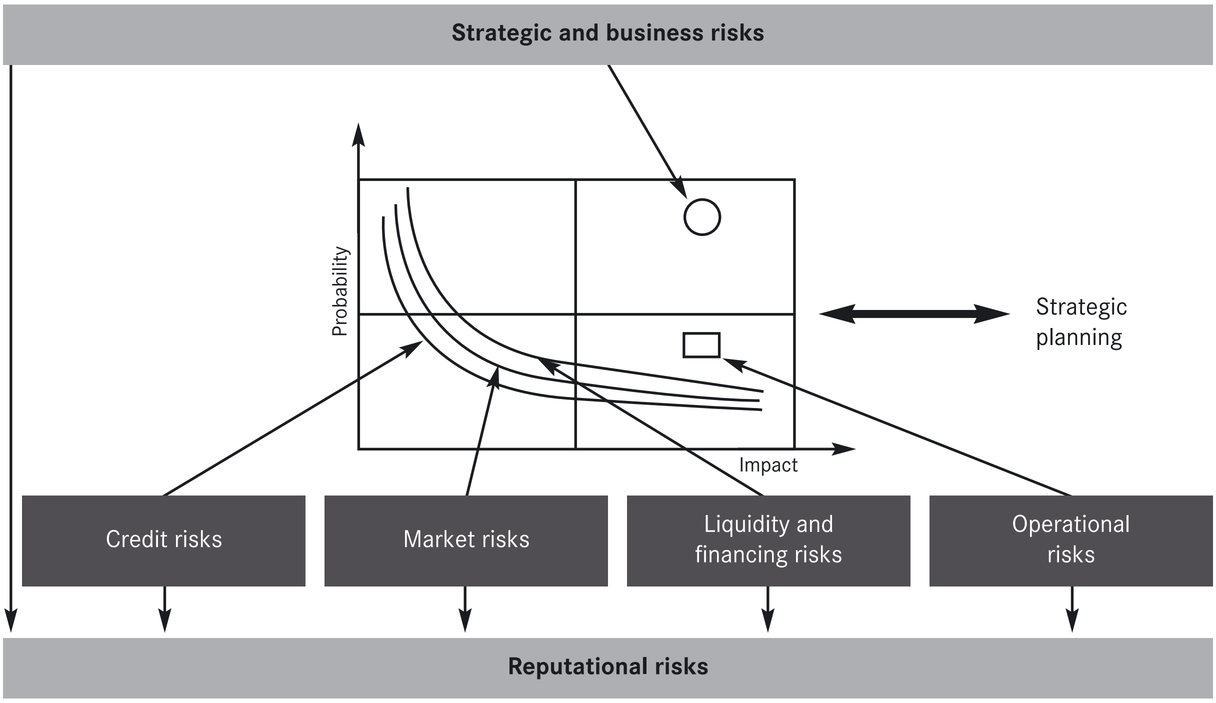
- to formulate policies governing market, liquidity, financing and operational risk in the Group's banking business;
- to allocate risk limits in accordance with those policies;
- to receive and review reports relating to those risks.

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

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

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

**Risk landscape: illustrative diagram**




# Strategic and business risk

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 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 into 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 non-compliance with an obligation which a client or a counterparty owes to the Group or to an individual Group company. Such non-compliance may result in a loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk resulting from such transactions may arise from lending or from receivables on positions held by the Group in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, client portfolios are analysed and rated individually, and an advanceable value is assigned based on the quality of the collateral and the portfolio's diversification. Positions are monitored on a daily basis. A large majority of the collateral is also revalued daily.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on an 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.

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

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

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

The credit risk breakdown presented in the following tables 'Credit risk by region', 'Credit risk by sector', 'Credit risk secured/not secured' and 'Credit risk by regulatory weightings' is calculated before deduction of eligible collateral and according to the Basel II BIS (Bank for International Settlements) standard approach. Differences between the total amounts and the corresponding balance sheet positions are explained in the section reconciliation of credit risk totals with balance sheet positions (see pages 70 ff.).

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 pledger, i.e. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

## Credit risk by region

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | **31.12.2011** **Total** CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 831 | 6 123 | 213 | 1 214 | 1 | **8 382** |
| Loans | 5 039 | 4 626 | 3 781 | 2 876 | 111 | **16 433** |
| Financial investments available-for-sale | 495 | 9 613 | 1 079 | 881 | 11 | **12 079** |
| Derivative financial instruments | 627 | 726 | 280 | 188 | 3 | **1 824** |
| Contingent liabilities | 138 | 142 | 168 | 38 | 6 | **492** |
| Irrevocable commitments | 48 | 9 | 13 | 9 | - | **79** |
| Securities lending and repo transactions | 1 187 | 4 839 | 739 | 214 | 3 | **6 982** |
| **Total** | 8 365 | 26 078 | 6 273 | 5 420 | 135 | **46 271** |

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | 31.12.2010 Total CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 682 | 4 338 | 112 | 1 096 | - | 6 228 |
| Loans | 4 730 | 4 299 | 3 183 | 2 246 | 132 | 14 590 |
| Financial investments available-for-sale | 1 491 | 10 309 | 1 159 | 826 | 11 | 13 796 |
| Derivative financial instruments | 795 | 910 | 363 | 325 | 5 | 2 398 |
| Contingent liabilities | 95 | 240 | 98 | 39 | 5 | 477 |
| Irrevocable commitments | 45 | 2 | - | - | - | 47 |
| Securities lending and repo transactions | 1 478 | 3 080 | 462 | 300 | 3 | 5 323 |
| Total | 9 316 | 23 178 | 5 377 | 4 832 | 156 | 42 859 |

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 pledger, i.e. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

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

## Credit risk by sector

| | | | | | **31.12.2011** |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | **Total** *CHF m* |
| Due from banks | – | 8 382 | – | – | **8 382** |
| Loans | 646 | 3 061 | 9 216 | 3 510 | **16 433** |
| Financial investments available-for-sale | 2 436 | 7 223 | – | 2 420 | **12 079** |
| Derivative financial instruments | 64 | 1 173 | 464 | 123 | **1 824** |
| Contingent liabilities | 9 | 96 | 256 | 131 | **492** |
| Irrevocable commitments | 27 | 14 | 28 | 10 | **79** |
| Securities lending and repo transactions | 1 271 | 4 184 | 134 | 1 393 | **6 982** |
| **Total** | 4 453 | 24 133 | 10 098 | 7 587 | **46 271** |

| | | | | | 31.12.2010 |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | Total *CHF m* |
| Due from banks | – | 6 228 | – | – | 6 228 |
| Loans | 939 | 2 656 | 8 284 | 2 711 | 14 590 |
| Financial investments available-for-sale | 4 509 | 7 529 | – | 1 758 | 13 796 |
| Derivative financial instruments | 48 | 1 642 | 579 | 129 | 2 398 |
| Contingent liabilities | 12 | 160 | 214 | 91 | 477 |
| Irrevocable commitments | 28 | 1 | 18 | – | 47 |
| Securities lending and repo transactions | 845 | 3 155 | 101 | 1 222 | 5 323 |
| Total | 6 381 | 21 371 | 9 196 | 5 911 | 42 859 |

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 collaterals are based on the regulatory standard haircuts of Basel II.

## Credit risk secured/not secured

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | **31.12.2011** **Total** CHF m |
|---|---|---|---|
| Due from banks | 4 072 | 4 310 | **8 382** |
| Loans | 15 717 | 716 | **16 433** |
| Financial investments available-for-sale | - | 12 079 | **12 079** |
| Derivative financial instruments | 878 | 946 | **1 824** |
| Contingent liabilities | 445 | 47 | **492** |
| Irrevocable commitments | 46 | 33 | **79** |
| Securities lending and repo transactions | 6 118 | 864 | **6 982** |
| **Total** | 27 276 | 18 995 | **46 271** |

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | 31.12.2010 Total CHF m |
|---|---|---|---|
| Due from banks | 2 109 | 4 119 | 6 228 |
| Loans | 13 496 | 1 094 | 14 590 |
| Financial investments available-for-sale | - | 13 796 | 13 796 |
| Derivative financial instruments | 1 281 | 1 117 | 2 398 |
| Contingent liabilities | 435 | 42 | 477 |
| Irrevocable commitments | 10 | 37 | 47 |
| Securities lending and repo transactions | 4 632 | 691 | 5 323 |
| Total | 21 963 | 20 896 | 42 859 |

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

The following table gives an overview of the credit risk classified by regulatory risk weightings as defined under Basel II. The allocation of the receivables to the risk weights depends on the type and actual rating of the counterparty or the rating of the issue in the case of financial investments. The collateralised part of receivables (mortgages excluded) is allocated to the 0% risk weight column, meaning that no capital is required for the respective outstanding amount.

## Credit risk by regulatory risk weightings

| | 0% *CHF m* | 20% *CHF m* | 35% *CHF m* | 50% *CHF m* | 75% *CHF m* | 100% *CHF m* | 150% *CHF m* | **31.12.2011** **Total** *CHF m* |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 4 502 | 3 048 | - | 778 | - | 54 | - | **8 382** |
| Loans | 11 012 | 5 | 3 787 | 342 | 49 | 1 217 | 21 | **16 433** |
| Financial investments available-for-sale | 1 952 | 4 932 | - | 5 071 | - | 98 | 26 | **12 079** |
| Derivative financial instruments | 885 | 224 | - | 509 | 1 | 205 | - | **1 824** |
| Contingent liabilities | 445 | - | - | - | 2 | 45 | - | **492** |
| Irrevocable commitments | 46 | 27 | - | - | 2 | 4 | - | **79** |
| Securities lending and repo transactions | 6 118 | 321 | - | 1 | - | 541 | 1 | **6 982** |
| **Total** | 24 960 | 8 557 | 3 787 | 6 701 | 54 | 2 164 | 48 | **46 271** |

| | 0% *CHF m* | 20% *CHF m* | 35% *CHF m* | 50% *CHF m* | 75% *CHF m* | 100% *CHF m* | 150% *CHF m* | 31.12.2010 Total *CHF m* |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 2 444 | 2 667 | - | 1 084 | - | 17 | 16 | 6 228 |
| Loans | 9 749 | 5 | 2 844 | 627 | 58 | 1 278 | 29 | 14 590 |
| Financial investments available-for-sale | 4 226 | 6 384 | - | 3 018 | - | 71 | 97 | 13 796 |
| Derivative financial instruments | 1 281 | 307 | - | 429 | 2 | 379 | - | 2 398 |
| Contingent liabilities | 433 | 2 | - | 3 | 3 | 36 | - | 477 |
| Irrevocable commitments | 10 | 27 | - | - | 1 | 9 | - | 47 |
| Securities lending and repo transactions | 4 632 | 222 | - | - | - | 469 | - | 5 323 |
| Total | 22 775 | 9 614 | 2 844 | 5 161 | 64 | 2 259 | 142 | 42 859 |

## Reconciliation of credit risk totals

The values shown in the tables above are based on the requirements of the standard approach set out in the capital adequacy rules of the Basel Committee on Banking Supervision (Basel II 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 II BIS approach and the corresponding balance sheet and off-balance-sheet positions.

- The difference in the due from banks position is due to the fact that under IFRS reverse repurchase transactions are recognised on the balance sheet, whereas under the Basel II BIS approach they are disclosed as an off-balance-sheet item under securities lending and repurchase transactions. The credit risk tables have been adjusted to avoid double counting.
- The difference in the loans position is due to the fact that the collective allowance is not deducted from loans under the Basel II BIS approach.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel II BIS approach.
- The total amount of the derivative financial instruments under the Basel II 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 II 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 II 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 II 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 II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 8 381.8 | 10 048.1 | -1 666.3 | reverse repurchase transactions deducted; collective allowance of CHF 2.3 million not deducted |
| Loans | 16 433.3 | 16 408.4 | 24.9 | collective allowance not deducted |
| Financial investments available-for-sale | 12 078.9 | 12 168.0 | -89.1 | unrealised gains deducted |
| Derivative financial instruments | 1 824.3 | 2 114.0 | -289.7 | |
| *of which security supplement (add-ons)* | | | *573.9* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-863.6* | *impact of netting rules under BIS approach* |
| **Total 31.12.2011** | **38 718.3** | **40 738.5** | **-2 020.2** | |

## Comments on off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 491.7 | 984.3 [1] | -492.6 | converted in credit equivalent |
| Irrevocable commitments | 79.5 | 166.5 [1] | -87.0 | converted in credit equivalent |
| Securities lending and repo transactions | 6 981.9 | 6 515.9 | 466.0 | including risk premium under BIS approach |
| **Total 31.12.2011** | **7 553.1** | | | |

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

## Reconciliation of credit risk totals with balance sheet positions

| | Basel II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 6 228.0 | 6 586.6 | -358.6 | reverse repurchase transactions deducted; collective allowance of CHF 6.2 million not deducted |
| Loans | 14 589.7 | 14 570.4 | 19.3 | collective allowance not deducted |
| Financial investments available-for-sale | 13 796.3 | 13 885.1 | -88.8 | unrealised gains deducted |
| Derivative financial instruments | 2 397.8 | 2 713.1 | -315.3 | |
| *of which security supplement (add-ons)* | | | *945.2* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-1 260.5* | *impact of netting rules under BIS approach* |
| Total 31.12.2010 | 37 011.8 | 37 755.2 | -743.4 | |

## Comments on off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 477.1 | 950.9 [1] | -473.8 | converted in credit equivalent |
| Irrevocable commitments | 47.2 | 111.2 [1] | -64.0 | converted in credit equivalent |
| Securities lending and repo transactions | 5 322.5 | 4 978.3 | 344.2 | including risk premium under BIS approach |
| Total 31.12.2010 | 5 846.8 | | | |

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

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

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

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with Lombard limits. 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 rating

| | **31.12.2011** Collateralised *CHF m* | 31.12.2010 Collateralised *CHF m* | **31.12.2011** Unsecured *CHF m* | 31.12.2010 Unsecured *CHF m* |
|---|---|---|---|---|
| Neither past due nor impaired | **19 613.9** | 16 613.7 | **19 140.7** | 18 795.0 |
| Past due but not impaired | **62.5** | 143.5 | **-** | - |
| Impaired | **105.7** | 81.8 | **4.0** | 3.6 |
| **Total** | **19 782.1** | 16 839.0 | **19 144.7** | 18 798.6 |
| **Neither past due nor impaired** | | | | |
| R1 to R3 | **16 080.1** | 13 577.2 | **18 236.9** | 18 275.5 |
| R4 to R6 (including temporarily unrated) | **3 533.8** | 3 036.5 | **903.8** | 519.5 |
| **Total** | **19 613.9** | 16 613.7 | **19 140.7** | 18 795.0 |
| **Past due but not impaired** | | | | |
| R7 | **62.5** | 143.5 | **-** | - |
| **Total** | **62.5** | 143.5 | **-** | - |
| *Collateral held or credit enhancement available* | ***70.9*** | *223.0* | **-** | - |
| **Impaired** | | | | |
| R8 | **61.1** | 23.6 | **0.5** | 0.1 |
| R9 to R10 | **44.6** | 58.2 | **3.5** | 3.5 |
| **Total** | **105.7** | 81.8 | **4.0** | 3.6 |
| *Collateral held or credit enhancement available* | ***55.6*** | *51.9* | **-** | - |
| **Allowance for credit losses** | | | | |
| Specific allowance for credit losses | **79.5** | 64.0 | **4.0** | 3.6 |
| Collective allowance for credit losses | **26.4** | 21.3 | **2.3** | 6.2 |
| **Total** | **105.9** | 85.3 | **6.3** | 9.8 |

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 balances in rating classes R1–R6, the balances are being serviced, the fair value of the collateral pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and 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 following table shows the Group's theoretical maximum exposure to credit risk as of the balance sheet date, which represents the exposure in the event of other parties failing to perform their obligations, without taking account of any collateral held or other credit enhancements. For financial assets, these exposures are typically the gross carrying amount, net of any amounts offset on the balance sheet or any impairment losses recognised.

### Maximum exposure to credit risk

| | **31.12.2011** Gross maximum exposure *CHF m* | 31.12.2010 Gross maximum exposure *CHF m* |
|---|---|---|
| Cash (excluding cash on hand) | **4 205.7** | 1 081.9 |
| Due from banks | **10 048.1** | 6 586.6 |
| Loans | **16 408.4** | 14 570.4 |
| Trading assets | **613.3** | 300.9 |
| Derivative financial instruments | **2 114.0** | 2 713.1 |
| Financial investments available-for-sale | **12 093.5** | 13 738.1 |
| Accrued income | **172.1** | 154.6 |
| Other assets | **9.8** | 6.8 |
| **Total maximum exposure to credit risk** | **45 664.9** | 39 152.4 |

## Market risk (trading 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.

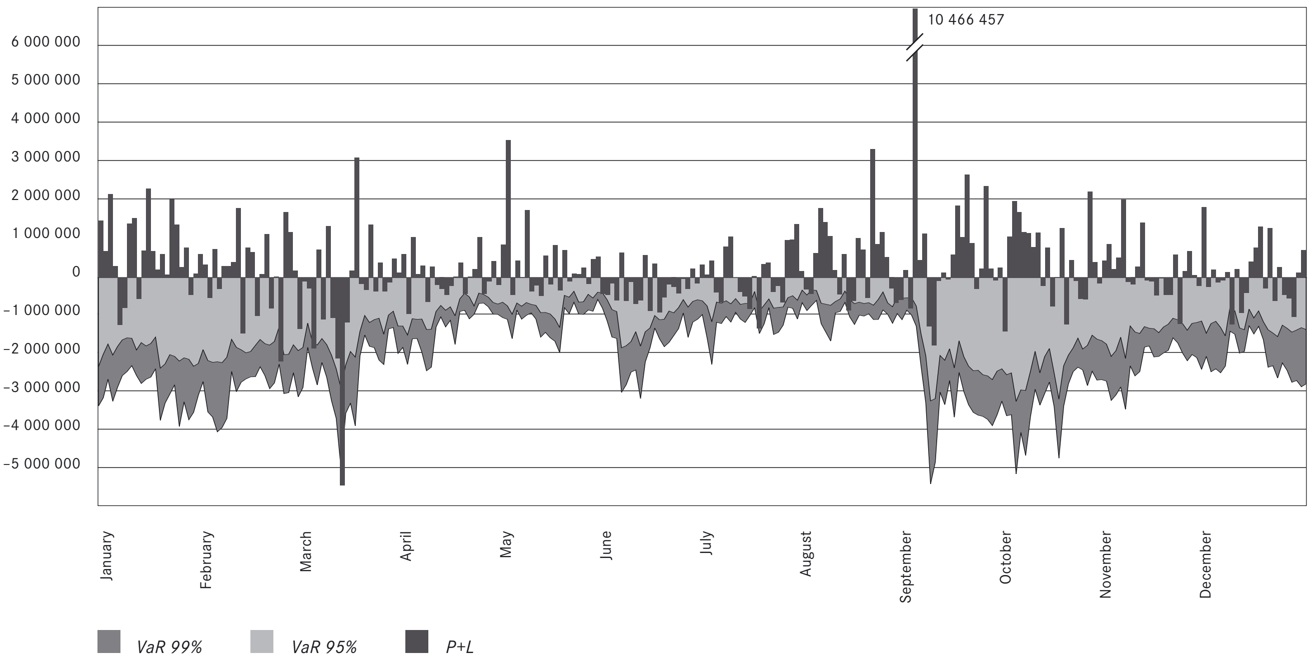
Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units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

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

The following methods are used to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude of the loss on a portfolio that, under normal circumstances and for a specific probability (confidence interval), will not be exceeded during the observed holding period. The VaR of the Group amounted to CHF 1.59 million on

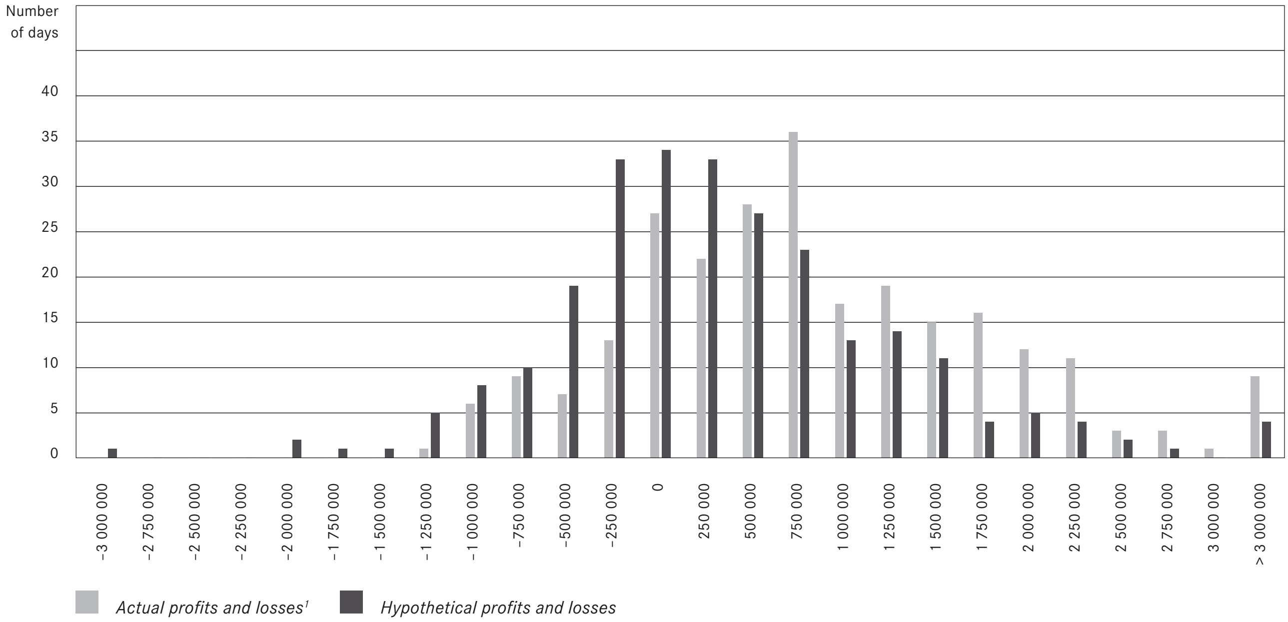
31 December 2011 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2011 amounted to CHF 3.22 million; the minimum was CHF 0.32 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the daily gains and losses generated by the trading book with the VaR values calculated each day. The following chart shows the daily calculations of VaR in 2011 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day.

**Back testing trading of Julius Baer Group for 2011 (CHF)**




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

**Distribution of daily revenues from trading activities of Julius Baer Group for 2011 (CHF)**




[1] Pure trading revenues excluding commissions and fees

Whereas VaR forecasts identify potential losses during normal market conditions, daily stress tests are carried out in order to estimate the consequences of extreme market swings. Limits are set for both these risk metrics and their utilisation is monitored on a daily basis.

**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 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 Group's stress based VaR amounted to CHF 1.63 million on 31 December 2011 (for a one-day holding period and a 95% confidence interval). The maximum stress based VaR recorded in 2011 amounted to CHF 6.10 million; the minimum was CHF 0.57 million. Under the new FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress based VaR.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed income trading positions is calculated according to the standard method. The 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 Group's trading portfolios:

### Market risk – VaR positions by risk type

| | At 31 December CHF 1000 | Average CHF 1000 | Maximum CHF 1000 | **2011** Minimum CHF 1000 |
|---|---|---|---|---|
| Equities | **-361** | **-1 018** | **-3 436** | **-206** |
| Interest rates | **-442** | **-448** | **-1 072** | **-204** |
| Foreign exchange/precious metals | **-1 708** | **-728** | **-3 287** | **-18** |
| Effects of correlation | **921** | | | |
| **Total** | **-1 590** | **-1 341** | **-3 216** | **-318** |

| | At 31 December CHF 1000 | Average CHF 1000 | Maximum CHF 1000 | 2010 Minimum CHF 1000 |
|---|---|---|---|---|
| Equities | -2 423 | -1 327 | -3 307 | -384 |
| Interest rates | -1 073 | -459 | -1 206 | -161 |
| Foreign exchange/precious metals | -262 | -416 | -1 497 | -43 |
| Effects of correlation | 1 442 | | | |
| Total | -2 316 | -1 350 | -3 392 | -393 |

# Liquidity, financing and interest rate risks in the banking book

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they fall due. The Treasury department of Bank Julius Baer & Co. Ltd. manages the Group's liquidity and financing risks on an integrated basis, with Bank Julius Baer & Co. Ltd. acting as the Group's central liquidity provider. Currently, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time. The liquidity position of Bank Julius Baer & Co. Ltd., in particular, as well as those of the other Group companies, are monitored and managed daily and exceed the regulatory minimum, as required by the Group's liquidity policy. In addition, payment flow simulations are run on a weekly basis in order to analyse the liquidity of the balance sheet under extreme conditions.

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of the assets and liabilities of the Group. One objective measure of this 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 2011. 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 at the markets in which the Group 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 1000* |
|---|---|---|---|---|---|---|
| **Interest sensitivity by time bands and 100 bp parallel increase** | | | | | | |
| **CHF** | | | | | | |
| **2011** | **3 418** | **377** | **25 581** | **-19 461** | **-49 183** | **-39 268** |
| 2010 | 830 | 521 | 21 236 | -25 785 | -38 959 | -42 157 |
| **USD** | | | | | | |
| **2011** | **38** | **2 062** | **5 917** | **-358** | **821** | **8 480** |
| 2010 | 2 222 | -2 619 | 1 584 | -3 539 | -54 | -2 406 |
| **EUR** | | | | | | |
| **2011** | **359** | **-650** | **3 754** | **-10 377** | **-1 991** | **-8 905** |
| 2010 | 1 089 | -1 597 | -3 631 | -11 037 | -43 | -15 219 |
| **Other** | | | | | | |
| **2011** | **130** | **-465** | **2 399** | **1 119** | **-4 222** | **-1 039** |
| 2010 | 987 | -1 185 | -269 | -569 | -2 415 | -3 451 |

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, the effect on interest earnings was CHF -5.2 million at the end of 2011 (2010: CHF 1.0 million).

Exposures to risks, other than interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Treasury department of Bank Julius Baer & Co. Ltd. Currency risks on the banking book are transferred to the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance sheet management guidelines and are included in the Group's VaR calculations.

**Hedging interest rate risks**

The Group accepts deposits from customers at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group hedges a portion of the interest rate risk associated with cash flows resulting from term deposits or term loans by employing interest rate swaps. The market value of these swaps on 31 December 2011 amounted to a net CHF -8.1 million (2010: CHF -0.4 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if they may be drawn on at any time.

### Expected remaining maturities of financial assets and liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | **Total** *CHF m* |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | 4 241.5 | - | - | - | - | **4 241.5** |
| Due from banks | - | 9 723.8 | 257.5 | 59.7 | 7.1 | **10 048.1** |
| Loans | - | 11 126.2 | 2 492.6 | 2 061.6 | 728.0 | **16 408.4** |
| Trading assets | 4 920.2 | - | - | - | - | **4 920.2** |
| Derivative financial instruments | 2 114.0 | - | - | - | - | **2 114.0** |
| Financial investments available-for-sale | - | 3 114.0 | 3 234.8 | 4 913.7 | 905.5 | **12 168.0** |
| Accrued income | - | 172.1 | - | - | - | **172.1** |
| **Total 31.12.2011** | 11 275.6 | 24 136.2 | 5 984.8 | 7 035.0 | 1 640.6 | **50 072.2** |
| Total 31.12.2010 | 8 592.5 | 21 919.9 | 5 956.3 | 6 102.1 | 1 218.4 | 43 789.3 |
| **Financial liabilities** | | | | | | |
| Due to banks | - | 5 651.8 | 5.8 | 12.6 | - | **5 670.2** |
| Due to customers | - | 24 076.1 | 7 590.3 | 3 174.8 | - | **34 841.2** |
| Trading liabilities | 814.1 | - | - | - | - | **814.1** |
| Derivative financial instruments | 2 116.0 | - | - | - | - | **2 116.0** |
| Financial liabilities designated at fair value | 164.9 | 1 225.0 | 852.9 | 1 037.6 | 214.2 | **3 494.6** |
| Debt issued | - | 8.1 | 0.6 | - | 467.1 | **475.8** |
| Accrued expenses | - | 96.9 | - | - | - | **96.9** |
| **Total 31.12.2011** | 3 095.0 | 31 057.8 | 8 449.6 | 4 225.0 | 681.4 | **47 508.8** |
| Total 31.12.2010 | 5 481.8 | 26 243.6 | 6 406.3 | 2 373.4 | 671.9 | 41 176.9 |

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can be called for repayment at any time, are classified as on demand. All derivative financial instruments are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

## Remaining contractual maturities of financial liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | **Total** *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 4 533.6 | 932.9 | 203.1 | 2.7 | - | **5 672.3** |
| Due to customers | 30 691.7 | 3 966.5 | 187.3 | - | - | **34 845.5** |
| Trading liabilities | 814.1 | - | - | - | - | **814.1** |
| Derivative financial instruments | 2 116.0 | - | - | - | - | **2 116.0** |
| Financial liabilities designated at fair value | 164.9 | 1 239.1 | 887.2 | 1 038.2 | 214.2 | **3 543.6** |
| Debt issued | - | 8.1 | 20.6 | 71.5 | 467.1 | **567.3** |
| Accrued expenses | - | 96.9 | - | - | - | **96.9** |
| **Total 31.12.2011** | 38 320.3 | 6 243.5 | 1 298.2 | 1 112.4 | 681.4 | **47 655.8** |
| Due to banks | 3 224.0 | 810.3 | 211.7 | 9.9 | - | 4 255.9 |
| Due to customers | 24 674.7 | 3 964.9 | 139.4 | 72.5 | - | 28 851.5 |
| Trading liabilities | 800.9 | - | - | - | - | 800.9 |
| Derivative financial instruments | 2 772.4 | - | - | - | - | 2 772.4 |
| Financial liabilities designated at fair value | 1 908.5 | 322.7 | 870.5 | 696.7 | 446.9 | 4 245.3 |
| Debt issued | - | 13.8 | 8.3 | 34.5 | 225.0 | 281.6 |
| Accrued expenses | - | 104.3 | - | - | - | 104.3 |
| Total 31.12.2010 | 33 380.4 | 5 216.0 | 1 229.9 | 813.6 | 671.9 | 41 311.8 |

# Operational risk

### Operational risk – definition and objectives

Operational risk is defined as the risk of loss resulting from inadequacies or failures either in internal processes, people and/or systems, or from external events.

The qualitative and quantitative standards defined by the Basel Committee for Banking Supervision are met by the current operational risk management and control set-up.

The objectives of the operational risk management process which have been defined for the purpose of avoiding substantial operational losses which could jeopardise the Group's ongoing business activities are the following:

- continuously to pursue the further development of the operational risk control framework, thus enabling the organisation to manage and minimise operational risks effectively;
- to promote a high level of risk awareness at all levels of the organisation;
- to contribute to the enhancement of internal regulations, processes and systems so as to minimise risks;
- to ensure that business operations continue to run smoothly in the event of infrastructure breakdowns and catastrophes (Business Continuity Management);
- to assess all risk-related issues before new services or products are offered;
- to ensure that operational risk reports are submitted to the appropriate levels of management;
- to ensure that shareholders' equity is correctly allocated to cover operational risks.

In addition, the Group's operational risk control framework also covers legal and regulatory risks.

### Business Continuity Management

The primary objective of Business Continuity Management (BCM) is to anticipate threats and their potential effects on the business activities and to put in place an appropriate crisis organisation structure to ensure that the Group is able to function in the event of such threats becoming reality. BCM includes analysis and planning activities that are designed to ensure that in the event of a catastrophe or a crisis which puts business in jeopardy, the continuity of essential business processes is re-established. The business continuity risks associated with a process are evaluated according to the assumed extent and duration of any disturbance or interruption to which it might be subjected.

The specialised security services support the Group's BCM function in defining continuity management procedures, particularly in the areas of emergency management, protection of people, valuables, facilities and information and the protection of IT infrastructure and services. The specialised security services are also responsible for implementing measures to reduce these various risks.

### Legal and compliance risk

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and that such failure results in injury to the third party concerned.

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

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

As described on page 62 the General Counsel is responsible for the management and control of legal and compliance risk. Legal and compliance risks are regularly reported to the dedicated committee of the Board of Directors, being the Audit Committee. In line with the development of the legal and regulatory environment of the industry the Group has consistently invested into personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and specialised periodical trainings are set up to ensure ongoing education and training to personnel. Beginning in 2009 Julius Baer initiated a global project with the aim to set up a cross-border framework. Thereby a set of core markets was defined along the Group's business strategy. In addition, country manuals have been established for all major markets. For those markets, permitted and not permitted services were defined. An extensive training was put in place to ensure adequate know-how transfer to the relationship managers. The formal closure of the project is expected by March 2012.

**Personnel risk**

Given the structure of the risks to which we are exposed, our major personnel risks lie in the Group's dependence on highly qualified staff and the availability of the necessary management and leadership capabilities. Based on this risk assessment and given the unchanged demand for qualified staff, our efforts are focused on attracting and developing talented professionals and retaining their services for the long term. The quality of our management's leadership, the attractiveness of our employment conditions, and targeted training and development measures are the critical factors in this regard.

**Insurance**

With the objective of covering or reducing the potential negative financial consequences to which the occurrence of the operational risks described above could lead, the Group takes out insurance cover for specific areas of its business activities in line with general industry practice.

## Reputational risk

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

# Management of capital including regulatory capital

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

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

In 2011, the scope of consolidation used for the calculation of capital adequacy differs from that applied for accounting purposes. Julius Baer Life (Bahamas) Ltd., a Group insurance company founded in 2008, is not consolidated for the calculation of capital adequacy. For further information about consolidated companies, please refer to Note 26.

In contrast to the calculations carried out for its financial reporting, for which the Group calculates risk-weighted assets according to BIS guidelines, the calculation of the Group's regulatory capital requirement is based on FINMA legal requirements. For its regulatory reporting, the Group applies the Swiss standardised approach (SA-CH). This results in higher risk-weighted assets and, consequently, higher capital requirements than would be required by BIS guidelines.

BIS guidelines require a tier 1 ratio of at least 4% of risk-weighted assets and total eligible capital equal to at least 8% of risk-weighted assets. According to a new FINMA guideline which came into effect on 1 July 2011 an additional capital buffer of 4% has to be held, based on the categorisation of our institute. As at 31 December 2011 and as at 31 December 2010, the Group was adequately capitalised under the respective FINMA and BIS guidelines.

## Capital ratios

| | **31.12.2011** *CHF m* | 31.12.2010 *CHF m* |
|---|---|---|
| **Risk-weighted positions** | | |
| Credit risk | **8 716.6** | 8 115.9 |
| Non-counterparty-related risk | **529.9** | 534.1 |
| Market risk[1] | **671.5** | 514.2 |
| Operational risk[1] | **2 892.5** | 2 896.3 |
| **Total** | **12 810.5** | 12 060.5 |
| **Eligible capital** | | |
| Eligible tier 1 capital | **2 788.5** | 2 873.4 |
| *of which hybrid tier 1 capital* | ***225.0*** | *225.0* |
| Eligible tier 1 and tier 2 capital | **3 067.3** | 2 933.6 |
| *of which lower tier 2 capital* | ***242.1*** | - |
| BIS tier 1 ratio | **21.8%** | 23.8% |
| BIS total capital ratio | **23.9%** | 24.3% |

[1]Risk-weighted figure calculated by taking 12.5 times the capital adequacy requirement according to the applied approach

Hybrid tier 1 capital represents 8.1% of the total tier 1 capital. The hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited. The preferred securities were issued in exchange for a note of Julius Baer Group Ltd. in the same amount and with mirror conditions. Their maturity is essentially perpetual and they are subordinate to all other borrowings. They have a preference over equity with regard to the payment of dividends and liquidation proceeds, though such dividends and liquidation proceeds will be paid only to the extent that they comply with the banking and company law regulations applicable to distributions made by Julius Baer Group Ltd. The preferential dividend right is not cumulative. The preferred securities are fully paid up, devoid of any voting rights or rights associated therewith, capable of sustaining losses, unsecured and repayable at the issuer's option only, no earlier than 2 December 2015 and only with the approval of the regulatory authorities. The hybrid equity created by the issue of preferred securities is recognised in full as core capital for the purpose of adherence to consolidated equity requirements.

Lower tier 2 capital represents 7.9% of the Group's total capital and consists of subordinated unsecured bonds ("bonds"), fully paid up and listed on the SIX Swiss Exchange. The bonds have been issued by Julius Baer Group Ltd. ("the issuer") in December 2011 in the amount of CHF 250 million. They constitute valid and legally binding obligations of the issuer enforceable in accordance with their terms and rank at least pari passu with all other unsecured and subordinated obligations of the issuer. Maturity date of the bonds is 23 December 2021. From (and excluding) the issue date (23 December 2011) to (but including) the reset date (23 December 2016), the bonds pay a fixed rate of interest of 4.50% per annum and during the period (reset period) commencing on (and excluding) the reset date and ending on (but including) the maturity date (23 December 2021) a fixed rate of interest of the rate per annum equal to the sum of the benchmark rate (i.e. in principle the five-year CHF mid-market swap rate calculated on the basis of the rate displayed on ISDAFIX page CHFSFIX at 11:00 a.m. [CET] on the date falling five business days before the reset date, the "reset determination date") and the margin (i.e. 3.815%). The interest will be payable annually in arrear on 23 December, each an “interest payment date” (30/360). Julius Baer Group Ltd. may redeem the bonds on the reset date (23 December 2016, and upon the occurrence of a capital event or a tax event as defined in the prospectus) in whole but not in part at the par value per bond plus accrued but unpaid interest thereon, upon giving not less than 30 days’ notice to the holders of the bonds.

The main adjustment to total equity for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table.

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 68% (2010: more than 67%) of the total required capital. Capital required for non-counterparty risk (2011: 4%; 2010: 5%) and market risk (2011: 5%; 2010: 4%) is of minor significance. The capital required to cover operational risk accounts for more than 23% of total required capital (2010: 24%).

For further details of the Group’s capital adequacy under Swiss law, please refer to www.juliusbaer.com (information will be available at the end of April 2012).

## Capital components

| | **31.12.2011** *CHF m* | 31.12.2010 *CHF m* |
|---|---|---|
| Gross tier 1 capital after deduction of treasury shares | **4 427.3** | 4 586.0 |
| *of which non-controlling interests* | ***1.9*** | *2.1* |
| *of which innovative capital instruments* | ***225.0*** | *225.0* |
| Goodwill and other intangible assets | **-1 543.1** | -1 635.4 |
| Other deductions | **-95.7** | -77.2 |
| **Eligible tier 1 capital** | **2 788.5** | 2 873.4 |
| Tier 2 capital | **278.8** | 60.2 |
| *of which lower tier 2 capital* | ***242.1*** | - |
| **Eligible tier 1 and tier 2 capital** | **3 067.3** | 2 933.6 |

## Minimum capital requirement

| | **31.12.2011** *CHF m* | 31.12.2010 *CHF m* |
|---|---|---|
| Credit risk | **697.3** | 649.3 |
| *of which for equity securities in the banking book* | ***1.7*** | *9.9* |
| Non-counterparty-related risk | **42.4** | 42.7 |
| Market risk | **53.7** | 41.1 |
| Operational risk | **231.4** | 231.7 |
| **Total** | **1 024.8** | 964.8 |

# Information on the consolidated income statement

## 1 Net interest income

| | 2011 CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Interest income on amounts due from banks | **39 100** | 30 999 | 26.1 |
| Interest income on loans | **276 057** | 239 345 | 15.3 |
| Interest income on money market instruments | **38 656** | 42 867 | -9.8 |
| Interest income on financial investments available-for-sale | **134 202** | 131 625 | 2.0 |
| Dividend income on financial investments available-for-sale | **2 171** | 2 328 | -6.7 |
| Interest income on trading portfolios | **45 197** | 5 993 | - |
| Dividend income on trading portfolios | **101 257** | 66 320 | 52.7 |
| Total interest income | **636 640** | 519 477 | 22.6 |
| Interest expense on amounts due to banks | **8 838** | 11 612 | -23.9 |
| Interest expense on amounts due to customers | **86 794** | 44 324 | 95.8 |
| Interest expense on debt issued | **8 382** | 8 168 | 2.6 |
| Total interest expense | **104 014** | 64 104 | 62.3 |
| **Total** | **532 626** | 455 373 | 17.0 |

## 2 Net fee and commission income

| | 2011 CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Investment fund fees | **108 299** | 112 521 | -3.8 |
| Fiduciary commissions | **19 088** | 19 363 | -1.4 |
| Portfolio and other management fees | **604 860** | 600 499 | 0.7 |
| Total fee and commission income from asset management | **732 247** | 732 383 | -0.0 |
| Income from brokerage and securities underwriting | **354 012** | 412 853 | -14.3 |
| Commission income on lending activities | **4 625** | 4 759 | -2.8 |
| Commission income on other services | **46 446** | 47 100 | -1.4 |
| Total fee and commission income | **1 137 330** | 1 197 095 | -5.0 |
| Commission expense | **195 342** | 216 725 | -9.9 |
| **Total** | **941 988** | 980 370 | -3.9 |

# 3 Net trading income

| | **2011** *CHF 1000* | 2010 *CHF 1000* | Change % |
|---|---|---|---|
| Debt instruments | **15 939** | 8 077 | 97.3 |
| Equity instruments | **-96 792** | -11 238 | - |
| Foreign exchange | **349 533** | 335 501 | 4.2 |
| **Total** | **268 680** | 332 340 | -19.2 |

# 4 Other ordinary results

| | **2011** *CHF 1000* | 2010 *CHF 1000* | Change % |
|---|---|---|---|
| Net gains/(losses) from disposal of financial investments available-for-sale | **-16 780** | -7 010 | -139.4 |
| Income from investments in associates | **1 101** | - | - |
| Real estate income | **5 102** | 5 552 | -8.1 |
| Other ordinary income | **22 146** | 28 271 | -21.7 |
| Other ordinary expenses | **2 176** | 516 | - |
| **Total** | **9 393** | 26 297 | -64.3 |

# 5 Personnel expenses

| | **2011** *CHF 1000* | 2010 *CHF 1000* | Change % |
|---|---|---|---|
| Salaries and bonuses | **648 965** | 648 695 | 0.0 |
| Contributions to staff pension plans (defined benefits) | **36 790** | 53 467 | -31.2 |
| Contributions to staff pension plans (defined contributions) | **16 180** | 14 986 | 8.0 |
| Other social security contributions | **51 604** | 53 431 | -3.4 |
| Share-based payments[1] | **22 875** | 20 393 | 12.2 |
| Other personnel expenses | **35 505** | 32 768 | 8.4 |
| **Total** | **811 919** | 823 740 | -1.4 |

[1]Including Staff Participation Plan, see Note 28

# 6 General expenses

| | 2011 CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Occupancy expense | **52 860** | 55 236 | -4.3 |
| IT and other equipment expense | **49 954** | 55 595 | -10.1 |
| Information, communication and advertising expense | **111 057** | 118 143 | -6.0 |
| Service expense, fees and taxes | **126 192** | 121 040 | 4.3 |
| Valuation allowances, provisions and losses | **88 445** [1] | 24 802 | - |
| Other general expenses | **15 740** | 1 193 | - |
| **Total** | **444 248** | 376 009 | 18.1 |

[1] On 14 April 2011, it was announced that German authorities and Julius Baer had agreed on a one-off payment by the latter of EUR 50 million to end the investigations against Julius Baer and unknown employees regarding tax matters in Germany.

# 7 Income taxes

| | 2011 CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Income tax on profit before taxes (expected tax expense) | **70 135** | 95 535 | -26.6 |
| Tax rate difference on income of components subject to foreign taxation | **-10 062** | -19 744 | 49.0 |
| Tax rate difference from local differences in domestic tax rates | **-6 313** | -7 949 | 20.6 |
| Lower taxed income | **-35 199** | -12 289 | - |
| Effect of utilisation of prior-year losses | **-1 238** | -219 | - |
| Effect from not capitalised losses | **8 059** | 5 141 | 56.8 |
| Adjustments related to prior years | **-1 440** | -1 894 | 24.0 |
| Write-off of deferred tax assets | **574** | - | - |
| Non-deductible expenses | **37 356** | 22 665 | 64.8 |
| Other | **-1 215** | 237 | - |
| **Actual income tax expense** | **60 657** | 81 483 | -25.6 |

A tax rate of 22% (2010: 22%) was applied in the calculation of income tax in Switzerland. Unrecognised accumulated loss carryforwards in the amount of CHF 58.1 million (2010: CHF 36.5 million) exist in the Group that do not expire.

| | **2011** CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Domestic income taxes | **55 301** | 78 888 | -29.9 |
| Foreign income taxes | **5 356** | 2 595 | 106.4 |
| **Total** | **60 657** | 81 483 | -25.6 |

| | **2011** CHF 1000 | 2010 CHF 1000 | Change % |
|---|---|---|---|
| Current income taxes | **62 338** | 86 511 | -27.9 |
| Deferred income taxes | **-1 681** | -5 028 | 66.6 |
| **Total** | **60 657** | 81 483 | -25.6 |

## Tax effects relating to components of other comprehensive income

| | | | **2011** |
|---|---|---|---|
| | Before-tax amount CHF 1000 | Tax (expense)/ benefit CHF 1000 | Net-of-tax amount CHF 1000 |
| Net unrealised gains/(losses) on financial investments available-for-sale | -41 535 | 5 463 | -36 072 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 20 465 | -1 457 | 19 008 |
| Hedging reserve for cash flow hedges | -6 607 | 1 443 | -5 164 |
| Translation differences | -6 101 | - | -6 101 |
| **Other comprehensive income for the year recognised directly in equity** | **-33 778** | **5 449** | **-28 329** |

| | | | 2010 |
|---|---|---|---|
| | Before-tax amount CHF 1000 | Tax (expense)/ benefit CHF 1000 | Net-of-tax amount CHF 1000 |
| Net unrealised gains/(losses) on financial investments available-for-sale | 15 294 | -2 690 | 12 604 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 19 349 | -1 066 | 18 283 |
| Hedging reserve for cash flow hedges | 1 253 | -276 | 977 |
| Translation differences | -29 281 | - | -29 281 |
| Other comprehensive income for the year recognised directly in equity | 6 615 | -4 032 | 2 583 |

# 8 Earnings per share and shares outstanding

| | 2011 | 2010 |
|---|---|---|
| **Basic net profit per share** | | |
| Net profit (CHF 1000) | **257 916** | 351 992 |
| Weighted average number of shares outstanding | **202 586 951** | 205 969 204 |
| Basic net profit per share (CHF) | **1.27** | 1.71 |

| | | |
|---|---|---|
| **Diluted net profit per share** | | |
| Net profit (CHF 1000) | **257 916** | 351 992 |
| Less (profit)/loss on equity derivative contracts (CHF 1000) | **-313** | -31 |
| Net profit for diluted EPS (CHF 1000) | **257 603** | 351 961 |
| Weighted average number of shares outstanding | **202 586 951** | 205 969 204 |
| Dilution effect | **243 658** | 20 216 |
| Weighted average number of shares outstanding for diluted EPS | **202 830 609** | 205 989 420 |
| Diluted net profit per share (CHF) | **1.27** | 1.71 |

| | 31.12.2011 | 31.12.2010 |
|---|---|---|
| **Shares outstanding** | | |
| Total shares issued | **206 630 756** | 206 630 756 |
| Share buyback programme | **7 592 954** | - |
| Treasury shares | **1 345 321** | 541 002 |
| **Total** | **197 692 481** | 206 089 754 |

# Information on the consolidated balance sheet

## 9a Due from banks

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Due from banks | **10 053 949** | 6 596 299 | 3 457 650 |
| Allowance for credit losses | **-5 870** | -9 679 | 3 809 |
| **Total** | **10 048 079** | 6 586 620 | 3 461 459 |

Due from banks by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **1 876 347** | 861 856 | 1 014 491 |
| Without collateral | **8 171 732** | 5 724 764 | 2 446 968 |
| **Total** | **10 048 079** | 6 586 620 | 3 461 459 |

## 9b Loans

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Loans | **11 915 863** | 10 991 413 | 924 450 |
| Mortgages | **4 579 039** | 3 631 943 | 947 096 |
| Subtotal | **16 494 902** | 14 623 356 | 1 871 546 |
| Allowance for credit losses | **-86 492** | -52 946 | -33 546 |
| **Total** | **16 408 410** | 14 570 410 | 1 838 000 |

Loans by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **8 447 969** | 7 274 644 | 1 173 325 |
| Mortgage collateral | **4 539 898** | 3 607 469 | 932 429 |
| Other collateral (mainly cash and fiduciary deposits) | **3 405 096** | 3 375 488 | 29 608 |
| Without collateral | **15 447** | 312 809 | -297 362 |
| **Total** | **16 408 410** | 14 570 410 | 1 838 000 |

# 9c Allowance for credit losses

| | **2011** Specific *CHF 1000* | **2011** Collective *CHF 1000* | 2010 Specific *CHF 1000* | 2010 Collective *CHF 1000* |
|---|---|---|---|---|
| Balance at the beginning of the year | **37 163** | **25 462** | 42 295 | 23 152 |
| Write-offs | **-** | **-** | -9 553 | - |
| Increase in allowance for credit losses | **28 306** | **1 812** | 8 761 | 2 310 |
| Decrease in allowance for credit losses | **-511** | **-** | -536 | - |
| Translation differences and other adjustments | **130** | **-** | -3 804 | - |
| **Balance at the end of the year** | **65 088** | **27 274** | 37 163 | 25 462 |

# 9d Impaired loans

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Gross loans | **103 052** | 63 204 | 39 848 |
| Specific allowance for credit losses | **-65 088** | -37 163 | -27 925 |
| **Net loans** | **37 964** | 26 041 | 11 923 |

# 10a Trading assets and liabilities

| | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Trading assets** | | | |
| Debt instruments | **613 342** | 300 944 | 312 398 |
| *of which quoted* | ***592 330*** | *270 673* | *321 657* |
| *of which unquoted* | ***21 012*** | *30 271* | *-9 259* |
| Equity instruments | **3 468 629** | 2 986 846 | 481 783 |
| *of which quoted* | ***2 708 389*** | *2 185 770* | *522 619* |
| *of which unquoted* | ***760 240*** | *801 076* | *-40 836* |
| Precious metals | **838 190** | 464 177 | 374 013 |
| **Total** | **4 920 161** | 3 751 967 | 1 168 194 |

| | | | |
|---|---|---|---|
| **Trading liabilities** | | | |
| Short positions – debt | **14 108** | 11 699 | 2 409 |
| *of which quoted* | ***10 582*** | *8 116* | *2 466* |
| *of which unquoted* | ***3 526*** | *3 583* | *-57* |
| Short positions – equity | **799 969** | 789 183 | 10 786 |
| *of which quoted* | ***369 449*** | *34 599* | *334 850* |
| *of which unquoted* | ***430 520*** | *754 584* | *-324 064* |
| **Total** | **814 077** | 800 882 | 13 195 |

The criteria for a financial instrument to qualify as quoted have been aligned with the disclosures about the determination of fair values (see also Note 25b). The previous year has been adjusted accordingly.

# 10b Reclassifications

In 2008, the Group reclassified certain trading assets to financial investments available-for-sale, as those assets were no longer held for the purpose of selling them in the near term. In 2009, 2010 and 2011, the Group did not reclassify any financial assets.

The carrying amount of these financial investments available-for-sale as at 31 December 2011 is CHF nil, as compared to CHF 14.1 million in the previous year and CHF 46.8 million in 2009 and CHF 58.0 million in 2008. Changes in fair value recognised in other comprehensive income amounted to CHF nil (2010: CHF -2.3 million, 2009: CHF 4.1 million). Financial investments at the carrying amount of CHF 13.9 million (2010: CHF 30.5 million, 2009: CHF 17.2 million) were sold or matured during the 2011 financial year, with a net result recognised in the income statement of CHF -0.2 million (2010: CHF 0.1 million, 2009: CHF 1.9 million).

For these financial investments, interest income of CHF 0.2 million was recognised in the income statement (2010: CHF 0.8 million, 2009: CHF 2.4 million).

# 11a Financial investments available-for-sale

| | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Money market instruments** | **3 421 289** | 5 993 113 | -2 571 824 |
| | | | |
| Government and agency bonds | **1 732 649** | 2 517 560 | -784 911 |
| Financial institution bonds | **4 430 254** | 3 368 591 | 1 061 663 |
| Corporate bonds | **2 509 356** | 1 858 816 | 650 540 |
| **Debt instruments** | **8 672 259** | 7 744 967 | 927 292 |
| *of which quoted* | ***7 994 562*** | *7 070 975* | *923 587* |
| *of which unquoted* | ***677 697*** | *673 992* | *3 705* |
| | | | |
| **Equity instruments** | **74 467** | 147 025 | -72 558 |
| *of which quoted* | ***63*** | *15 172* | *-15 109* |
| *of which unquoted* | ***74 404*** | *131 853* | *-57 449* |
| | | | |
| **Total** | **12 168 015** | 13 885 105 | -1 717 090 |

The criteria for a financial instrument to qualify as quoted have been aligned with the disclosures about the determination of fair values (see also Note 25b). The previous year has been adjusted accordingly.

# 11b Financial investments available-for-sale – Credit ratings

| **Debt instruments by credit rating classes (excluding money market instruments)** | **Fitch, S&P** | **Moody's** | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|---|
| 1–2 | AAA – AA- | Aaa – Aa3 | **6 419 972** | 5 843 183 | 576 789 |
| 3 | A+ – A- | A1 – A3 | **2 000 636** | 1 709 393 | 291 243 |
| 4 | BBB+ – BBB- | Baa1 – Baa3 | **139 072** | 131 589 | 7 483 |
| 5–7 | BB+ – CCC- | Ba1 – Caa3 | **56 091** | 31 577 | 24 514 |
| Unrated | | | **56 488** | 29 225 | 27 263 |
| | | | | | |
| **Total** | | | **8 672 259** | 7 744 967 | 927 292 |

# 12 Investments in associates

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Balance at the beginning of the year | **-** | - | - |
| Additions | **52 235** | - | 52 235 |
| Income | **1 101** | - | 1 101 |
| Translation differences | **-4 832** | - | -4 832 |
| **Balance at the end of the year** | **48 504** | - | 48 504 |

Refer to Note 27a for details regarding the acquisition of 30% of São Paulo-based GPS Investimentos e Participações S.A.

The associated company had the following balance sheet and income statement totals on an aggregated basis not adjusted for the Group's proportionate interest.

| | 31.12.2011 *CHF 1000* |
|---|---|
| Assets | 13 809 |
| Liabilities | 8 443 |
| Operating income | 22 510 |
| Net profit | 12 911 |

# 13 Intangible assets and property and equipment

| | Goodwill CHF m | Customer relationships CHF m | Software CHF m | **Total intangible assets** CHF m | Bank premises CHF m | Other property and equipment CHF m | **Total property and equipment** CHF m |
|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | |
| Balance on 01.01.2010 | 1 122.5 | 755.8 | 238.1 | 2 116.4 | 340.5 | 114.1 | 454.7 |
| Translation differences | - | -2.6 | -0.5 | -3.1 | - | -1.3 | -1.3 |
| Additions | - | - | 68.1 | 68.1 | 7.3 | 21.6 | 28.9 |
| Acquisition of subsidiaries | 4.3 | 163.0 | 1.8 | 169.1 | 41.7 | 3.5 | 45.2 |
| Disposals/transfers[1] | 9.9 [2] | - | 1.6 | 11.5 | 4.9 | 5.0 | 9.9 |
| Balance on 31.12.2010 | 1 117.0 | 916.2 | 305.9 | 2 339.1 | 384.7 | 133.0 | 517.6 |
| Translation differences | - | -0.4 | -0.1 | -0.5 | - | -0.1 | -0.1 |
| Additions | - | - | 56.9 | 56.9 | 6.2 | 25.3 | 31.5 |
| Disposals/transfers[1] | - | - | 8.0 | 8.0 | 6.8 | 10.1 | 16.9 |
| Balance on 31.12.2011 | 1 117.0 | 915.7 | 354.8 | 2 387.5 | 384.0 | 148.0 | 532.1 |
| **Depreciation and amortisation** | | | | | | | |
| Balance on 01.01.2010 | - | 307.3 | 103.8 | 411.1 | 46.2 | 76.6 | 122.8 |
| Translation differences | - | -0.1 | -0.1 | -0.2 | - | -0.8 | -0.8 |
| Charge for the period | - | 91.6 | 40.3 | 131.9 | 6.5 | 21.9 | 28.5 |
| Disposals/transfers[1] | - | - | 1.6 | 1.6 | 0.1 | 4.6 | 4.7 |
| Balance on 31.12.2010 | - | 398.7 | 142.5 | 541.3 | 52.6 | 93.2 | 145.8 |
| Translation differences | - | -0.1 | - | -0.1 | - | - | - |
| Charge for the period | - | 92.0 | 55.4 [3] | 147.4 | 7.2 | 23.2 | 30.3 |
| Disposals/transfers[1] | - | - | 8.0 | 8.0 | 0.1 | 10.1 | 10.2 |
| Balance on 31.12.2011 | - | 490.7 | 189.9 | 680.6 | 59.6 | 106.3 | 165.9 |
| **Book value** | | | | | | | |
| Balance on 31.12.2010 | 1 117.0 | 517.4 | 163.4 | 1 797.8 | 332.0 | 39.7 | 371.8 |
| **Balance on 31.12.2011** | **1 117.0** | **425.1** | **164.8** | **1 706.8** | **324.4** | **41.8** | **366.2** |

[1] Includes derecognition of fully depreciated and amortised assets
[2] In relation to the acquisition of Julius Baer Wealth Management (Monaco) S.A.M., Monaco, final price settlement induced goodwill adjustment
[3] Includes additional charges of CHF 21.0 million related to adjusted useful lives of software

### 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 groups of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit.

The Group uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Group estimates the free cash flows expected to be generated from the continuing use of the cash-generating unit based on its own four-year 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. The Group assumes that markets will remain more volatile than they used to be and that short-term disruptions cannot be excluded. However, the Group expects in the medium and long term a favourable development of the private banking activities which is reflected in the respective growth of the key parameters. The Group 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. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 9.3% (2010: 9.4%).

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry.

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

### Changes in key assumptions

Deviations of future actual results achieved vs. forecasted/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 driven 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 four-year forecast period. 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.

# 14 Operating lease commitments

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| Not later than one year | **41 550** | 45 762 |
| Later than one year and not later than five years | **132 459** | 83 262 |
| Later than five years | **94 164** | 98 347 |
| **Subtotal** | **268 173** | 227 371 |
| Less sublease rentals received under non-cancellable leases | **13 749** | 10 540 |
| **Total** | **254 424** | 216 831 |

Operating leases in the gross amount of CHF 47.0 million are included in operating expenses for the 2011 financial year (2010: CHF 45.1 million).

# 15 Assets pledged or ceded to secure own commitments and assets subject to retention of title

| | | **31.12.2011** | | 31.12.2010 |
|---|---|---|---|---|
| | Book value *CHF 1000* | Effective commitment *CHF 1000* | Book value *CHF 1000* | Effective commitment *CHF 1000* |
| Securities | **676 683** | **676 683** | 520 973 | 520 636 |
| Other | **11 656** | **10 013** | 665 | 492 |
| **Total** | **688 339** | **686 696** | 521 638 | 521 128 |

The assets are mainly pledged for Lombard limits at central banks and for stock exchange securities deposits.

# 16 Financial liabilities designated at fair value

| | 2012<br>CHF m | 2013<br>CHF m | 2014<br>CHF m | 2015<br>CHF m | 2016<br>CHF m | 2017–2021<br>CHF m | **31.12.2011**<br>CHF m | 31.12.2010<br>CHF m |
|---|---|---|---|---|---|---|---|---|
| **Senior debt** | | | | | | | | |
| Fixed rate | 1 945.3 | 25.5 | 28.9 | - | - | - | **1 999.8** | 1 983.5 |
| Interest rates (ranges in %) | 0.2–50.1 | 1.5–11.5 | 4.0–6.1 | - | - | - | **-** | - |
| Floating rate | 1 131.9 | 72.1 | 60.0 | 8.1 | 8.5 | 214.2 | **1 494.8** | 1 170.9 |
| **Total** | **3 077.2** | **97.6** | **88.9** | **8.1** | **8.5** | **214.2** | **3 494.6** | 3 154.4 |

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.2% up to 50.1%. 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 and, where applicable, the application of hedge accounting.

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.

In 2010 financial liabilities designated at fair value included an additional liability of CHF 1006.4 million relating to Julius Baer Life (Bahamas) Ltd., which was compensated by respective financial assets designated at fair value in the same amount. In 2011 the financial liability designated at fair value was included in liabilities held for sale.

# 17 Debt issued

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| Money market instruments | **8 694** | 15 210 |
| Bonds | **242 135** | - |
| Preferred securities | **225 000** | 225 000 |
| **Total** | **475 829** | 240 210 |

## Bonds and preferred securities

| Year of issue | Interest rate % | | Notional amount CHF 1000 | **31.12.2011** Total CHF 1000 | 31.12.2010 Total CHF 1000 |
|---|---|---|---|---|---|
| **Julius Baer Group Ltd.** | | | | | |
| 2011[1] | 4.50 | Lower tier 2 bond | 250 000 | **242 135** | - |
| **Julius Baer Capital (Guernsey) I Ltd.** | | | | | |
| 2005[2] | 3.63 | Preferred securities | 225 000 | **225 000** | 225 000 |
| **Total** | | | | **467 135** | 225 000 |

[1]Own bonds of CHF 3.65 million are offset with bonds outstanding.
See details regarding lower tier 2 bond on page 86
[2]See details regarding preferred securities on page 86

# 18a Deferred tax assets

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **10 074** | 3 474 |
| Income statement – credit | **4 978** | 4 606 |
| Income statement – charge | **-2 445** | -28 |
| Acquisition of subsidiaries | **-** | 3 313 |
| Recognised directly in equity | **-9** | 10 |
| Translation differences and other adjustments | **-203** | -1 301 |
| **Balance at the end of the year** | **12 395** | 10 074 |

The components of deferred tax assets are as follows:

| | | |
|---|---|---|
| Operating loss carryforwards | **10 254** | 7 071 |
| Employee compensation and benefits | **-** | 108 |
| Property and equipment | **148** | 92 |
| Valuation adjustments on loans | **1 993** | 2 793 |
| Other | **-** | 10 |
| **Total deferred tax assets** | **12 395** | 10 074 |

# 18b Deferred tax liabilities

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **121 893** | 85 761 |
| Income statement – charge | **1 128** | - |
| Income statement – credit | **-276** | -450 |
| Acquisition of subsidiaries | **-** | 33 034 |
| Recognised directly in equity | **-5 458** | 4 042 |
| Translation differences and other adjustments | **-76** | -494 |
| **Balance at the end of the year** | **117 211** | 121 893 |

The components of deferred tax liabilities are as follows:

| | | |
|---|---|---|
| Provisions | **54 401** | 53 976 |
| Property and equipment | **12 679** | 13 812 |
| Financial investments available-for-sale | **21 435** | 24 072 |
| Intangible assets | **26 647** | 30 033 |
| Other | **2 049** | - |
| **Total deferred tax liabilities** | **117 211** | 121 893 |

# 19 Provisions

| | Restructuring CHF 1000 | Legal risks CHF 1000 | Other CHF 1000 | 2011 Total CHF 1000 | 2010 Total CHF 1000 |
|---|---|---|---|---|---|
| Balance at the beginning of the year | **7 314** | **22 544** | **2 338** | **32 196** | 17 291 |
| Utilised during the year | **-5 629** | **-68 207** | **-989** | **-74 825** | -22 840 |
| Recoveries | **-** | **14 573** | **-** | **14 573** | - |
| Provisions made during the year | **25 728** | **71 669** | **215** | **97 612** | 25 988 |
| Provisions reversed during the year | **-** | **-15 438** | **-** | **-15 438** | -956 |
| Acquisition of subsidiaries | **-** | **-** | **-** | **-** | 14 384 |
| Translation differences | **-19** | **-48** | **-** | **-67** | -1 671 |
| **Balance at the end of the year** | **27 394** | **25 093** | **1 564** | **54 051** | 32 196 |
| **Maturity of provisions** | | | | | |
| Up to one year | **24 274** | **8 726** | **-** | **33 000** | 8 888 |
| Over one year | **3 120** | **16 367** | **1 564** | **21 051** | 23 308 |

| **Details to restructuring provisions** | 2011 | 2010 |
|---|---|---|
| Balance at the beginning of the year | **7 314** | - |
| Provisions made during the year | **25 728** | 15 420 |
| Provisions used: | | |
| – Personnel | **-5 497** | -7 800 |
| – Occupancy expense | **-132** | -306 |
| Translation differences | **-19** | - |
| **Balance at the end of the year** | **27 394** | 7 314 |

The restructuring provisions made during the 2010 financial year and relating to the acquisition of ING Bank (Switzerland) Ltd have been almost entirely utilised in 2011.

The Group announced a new cost reduction plan in November 2011 in response to the continued challenging general business environment. The cost reduction efforts structurally curb general as well as personnel expenses. A restructuring provision in the amount of CHF 25.7 million has been made in order to account for related expenses in the following years.

The Group 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 the Group – depending on the status of related proceedings – is difficult to assess. The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss or if the dispute for economic reasons should be settled without acknowledgment of any wrongdoing on the part of the Group and if the amount of such obligation or loss can be reasonably estimated. The Group does not believe that it can estimate an amount of reasonably possible losses for certain of its proceedings because e.g. of the complexity of the proceedings, the early stage of the proceedings and limited amount of discovery that has occurred and/or other factors. Described below are certain proceedings that might have a material effect on the Group.

In connection with certain private banking client accounts managed by an external asset manager and previously held with the former New York branch of Bank Julius Baer & Co. Ltd. (“the Bank”), as custodian and lender, there are civil legal proceedings pending before New York State Court against the Bank (the principal operating entity of the Group) alleging breach of contract, breach of fiduciary duty, negligence, conversion, unjust enrichment and/or fraud, and unauthorised pledging of client assets arising from and before 2001 when an external asset manager sent forged statements to certain clients and moved funds from certain clients’ accounts, and pledged assets in certain clients’ accounts, to cover losses in others. Proceedings before a New York arbitration panel in the same matter involving some of the same claimants have been closed in 2010 largely in favour of the Bank, among others also clearly rejecting any allegations of fraud, conspiracy and the like (disputed claims, without interest and unquantifiable claims for punitive damages and counterclaims, all court and arbitration proceedings – the latter closed in the meantime – initially amounted to approximately USD 105 million). Nevertheless, the affected claimants continue with their proceedings that include challenging the arbitration award in state court. The Bank is opposing these claims and has taken appropriate steps and measures to defend its interest.

In 2010 and 2011, litigation was commenced against the Bank and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff fraudulent investment schemes, in the courts of New York and the British Virgin Islands and by the Trustee of Madoff’s Broker-Dealer Company, Bernard L. Madoff Investment Securities LLC, in the courts of New York. The complaints refer to, and in some cases include as defendants, the unnamed beneficial owners of the accounts on whose behalf the payments were made. The plaintiff(s) in these various actions have asserted claims to avoid and/or recover alleged fraudulent transfers under the relevant bankruptcy code provisions and for mistake and restitution. The combined claims seek to recover approximately USD 1.8 billion in payments made by the Fairfield funds and received by the more than 80 defendants. Only a fraction of this amount is sought against the Bank and, in some cases, its beneficial owners. Some of the complaints, however, aggregate the damages asserted against the many defendants so that a reliable allocation of the claimed amounts between the Bank and the other defendants cannot be made at this time. In addition, because the litigation largely 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 summer 2011 the Bank has been informed by Swiss authorities that the US Department of Justice (DOJ) named it as one of at that time ten Swiss banks being in the focus and investigated in connection with their cross-border private banking services provided to US private clients. The Bank is in contact with the DOJ and has established cooperation with the US authorities within the confines of applicable laws with the aim to reach a settlement. In parallel, Swiss authorities are in negotiations with the DOJ and the US Internal Revenue Service (IRS) as regards a resolution for the ongoing dispute on tax matters between the US and the Swiss financial industry that aims amongst others at supporting and facilitating settlement solutions for the named banks and at clarifying the scope and extent of administrative assistance and provision of certain client data under the applicable double taxation treaty. The Bank, whilst also cooperating with its home regulator FINMA in this matter, is supporting such efforts of the Swiss government. In the context of its cooperation the Bank has provided the US authorities data with regard to its historical US business. Based on the current stage of such negotiations and cooperation, however, the potential outcome (likelihood and potential content of a settlement) and the financial (potential settlement amount and other costs) and business impact are open and currently not reliably assessable.

# Additional information
## 20 Reporting by segment

Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe and Asia. 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 fees charged for servicing and advising private clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision-maker, who is responsible for allocating resources and assesses the financial performance of the business. The CEO has been identified as the chief operating decision-maker, as he is responsible for the operational management of the whole Group.

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

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

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

### Entity-wide disclosures

| | **31.12.2011** Total assets CHF m | 31.12.2010 CHF m | **2011** Operating income CHF m | 2010 CHF m | **2011** Investments CHF 1000 | 2010 CHF 1000 |
|---|---|---|---|---|---|---|
| Switzerland | **45 523** | 37 919 | **1 460** | 1 488 | **70 939** | 271 932 |
| Europe (excl. Switzerland) | **14 807** | 11 653 | **128** | 162 | **3 350** | 28 198 |
| Americas | **1 265** | 1 816 | **50** | 44 | **211** | 519 |
| Asia and other countries | **6 329** | 5 422 | **191** | 179 | **13 873** | 10 624 |
| Less consolidation items | **14 995** | 10 523 | **76** | 79 | | |
| **Total** | **52 929** | 46 287 | **1 753** | 1 794 | **88 373** | 311 273 |

The information about geographical areas is based on the domicile of the reporting entity. This geographical information is provided to comply with IFRS and does not reflect the way the Group is managed.

# 21 Related party transactions

| | **31.12.2011** *CHF 1000* | 31.12.2010 *CHF 1000* |
|---|---|---|
| **Key management personnel compensation**[1] | | |
| Salaries and other short-term employee benefits | **11 177** | 13 025 |
| Post-employment benefits | **659** | 678 |
| Other long-term benefits | **4** | - |
| Participation plans | **6 105** | 5 466 |
| **Total** | **17 945** | 19 169 |
| **Receivables from** | | |
| associated companies | **-** | - |
| key management personnel | **22 241** | 18 531 |
| **Total** | **22 241** | 18 531 |
| **Liabilities to** | | |
| associated companies | **-** | - |
| key management personnel | **14 821** | 16 842 |
| own pension funds | **3 104** | 3 542 |
| **Total** | **17 925** | 20 384 |
| **Credit guarantees to** | | |
| key management personnel | **1 024** | 875 |
| **Total** | **1 024** | 875 |
| **Income from services provided to** | | |
| associated companies | **-** | - |
| key management personnel | **522** | 386 |
| **Total** | **522** | 386 |

[1] 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 General Counsel, the Chief Risk Officer and the Private Banking Representative.

For compensation, loans and share and option holdings of the Board of Directors and Senior Management, see pages 140 to 147.

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.

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.

# 22 Pension plans and other employee benefits

| | **2011** CHF 1000 | 2010 CHF 1000 |
|---|---|---|
| **1. Development of pension obligations and assets** | | |
| Present value of funded obligation at the beginning of the year | **-1 690 951** | -1 368 939 |
| Acquisitions/transfer from restructuring reserve | **-** | -141 494 |
| Service cost | **-74 466** | -76 791 |
| Past service cost | **-21 322** | - |
| Interest cost | **-45 023** | -49 500 |
| Settlements | **12 075** | 2 351 |
| Benefits paid | **47 849** | 56 704 |
| Actuarial gain/(loss) | **2 371** | -122 718 |
| Translation differences | **467** | 9 436 |
| Present value of funded obligation at the end of the year | **-1 769 000** | -1 690 951 |
| Fair value of plan assets at the beginning of the year | **1 604 911** | 1 375 805 |
| Acquisitions/transfer from restructuring reserve | **-** | 124 664 |
| Expected return on plan assets | **62 686** | 68 311 |
| Employer's contributions | **60 401** | 59 034 |
| Employees' contributions | **27 218** | 26 163 |
| Settlements | **-13 019** | -2 351 |
| Benefits paid | **-47 849** | -56 704 |
| Actuarial gain/(loss) | **-76 376** | 18 734 |
| Translation differences | **-492** | -8 745 |
| Fair value of plan assets at the end of the year | **1 617 480** | 1 604 911 |

| | **31.12.2011** CHF 1000 | 31.12.2010 CHF 1000 |
|---|---|---|
| **2. Balance sheet** | | |
| Fair value of plan assets | **1 617 480** | 1 604 911 |
| Present value of funded obligation | **-1 769 000** | -1 690 951 |
| (Unfunded)/funded status | **-151 520** | -86 040 |
| Unrecognised past service cost | **15 802** | - |
| Unrecognised net actuarial (gain)/loss | **161 581** | 88 317 |
| Translation differences | **-1 410** | -1 390 |
| (Accrued)/prepaid pension cost | **24 453** | 887 |

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

| | 2011<br>CHF 1000 | 2010<br>CHF 1000 |
|---|---|---|
| **3. Income statement** | | |
| Service cost | **-74 466** | -76 791 |
| Interest cost | **-45 023** | -49 500 |
| Expected net return on plan assets | **62 686** | 68 311 |
| Amortisation of actuarial gain/(loss) | **-130** | 43 |
| Past service cost | **-5 520** | - |
| Recognised actuarial gain/(loss) | **-** | -32 776 |
| Increase/(decrease) of unrecognised plan assets | **-** | 11 083 |
| Settlements | **-1 555** | - |
| Net periodic pension cost | **-64 008** | -79 630 |
| Employees' contributions | **27 218** | 26 163 |
| **Expense recognised in the income statement** | **-36 790** | -53 467 |

| | 2011<br>CHF 1000 | 2010<br>CHF 1000 |
|---|---|---|
| **4. Movement in the net asset or (liability)** | | |
| (Accrued)/prepaid pension cost at the beginning of the year | **887** | 12 280 |
| Acquisitions | **-** | -16 830 |
| Translation differences | **-45** | -130 |
| Expense recognised in the income statement | **-36 790** | -53 467 |
| Employer's contributions | **60 401** | 59 034 |
| **Amount recognised in the balance sheet** | **24 453** | 887 |
| Prepaid pension cost | **26 072** | 2 679 |
| Accrued pension liability | **-1 619** | -1 792 |
| **(Accrued)/prepaid pension cost** | **24 453** | 887 |
| **Actual return on plan assets** | **-13 690** | 87 045 |

| | 2011<br>% | 2010<br>% |
|---|---|---|
| **5. Asset allocation** | | |
| Cash | **4.96** | 2.75 |
| Debt instruments | **39.79** | 37.49 |
| Equity instruments | **23.63** | 26.59 |
| Real estate | **13.86** | 12.52 |
| Other | **17.76** | 20.65 |
| **Total** | **100.00** | 100.00 |

| | 31.12.2011 CHF 1000 | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | 31.12.2008 CHF 1000 |
|---|---|---|---|---|
| **6. Defined benefit pension plans** | | | | |
| Fair value of plan assets | **1 617 480** | 1 604 911 | 1 375 805 | 1 213 546 |
| Present value of funded obligation | **-1 769 000** | -1 690 951 | -1 368 939 | -1 356 481 |
| (Unfunded)/funded status | **-151 520** | -86 040 | 6 866 | -142 935 |
| Experience adjustment on plan liabilities | **7 875** | -38 674 | 71 267 | -3 064 |
| Change in assumptions adjustment on plan liabilities | **-5 504** | -84 044 | -6 985 | 37 660 |
| Experience adjustment on plan assets | **-76 376** | 18 734 | 46 451 | -238 520 |
| **Total actuarial gain/(loss)** | **-74 005** | -103 984 | 110 733 | -203 924 |

## Defined contribution pension plans

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 16.2 million for the 2011 financial year (2010: CHF 15.0 million).

## Actuarial calculation of pension assets and obligations

The latest actuarial calculation was carried out as at 31 December 2011. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland which accounts for about 96% of all benefit obligations and plan assets:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | **2.25%** | 2.60% |
| Expected net return on plan assets | **3.50%** | 3.80% |
| Average future salary increases | **1.00%** | 2.00% |
| Future pension increases | **0.00%** | 0.00% |

The expected return on funded pension plan assets is based on long-term historical performance of the asset categories as well as expectations for future market performance.

The expected employer contributions for the 2012 financial year are estimated at CHF 62.8 million.

The Group had outstanding liabilities to various pension plans in the amount of CHF 3.1 million (2010: CHF 3.5 million).

# 23 Securities transactions

| | **31.12.2011** *CHF m* | 31.12.2010 *CHF m* |
|---|---|---|
| **Securities lending and borrowing transactions / repurchase and reverse repurchase transactions** | | |
| Receivables from cash collateral provided in securities borrowing and reverse repurchase transactions | **1 696.0** | 402.5 |
| Obligations to return cash collateral received in securities lending and repurchase transactions | **579.6** | 585.3 |
| Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions | **1 757.8** | 1 105.0 |
| *of which securities the right to pledge or sell has been granted without restriction* | ***1 757.8*** | *1 105.0* |
| Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions | **6 169.2** | 4 536.4 |
| *of which repledged or resold securities* | ***3 702.3*** | *3 783.5* |

# 24 Derivative financial instruments

## Derivatives held for trading

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Forward contracts | 64 546.7 | 767.4 | 746.5 |
| Futures | 55.4 | - | 0.1 |
| Options (OTC) | 50 586.4 | 695.6 | 626.2 |
| **Total foreign exchange derivatives 31.12.2011** | **115 188.5** | **1 463.0** | **1 372.8** |
| Total foreign exchange derivatives 31.12.2010 | 138 534.2 | 2 239.7 | 2 263.8 |
| **Interest rate derivatives** | | | |
| Swaps | 5 352.0 | 57.4 | 61.5 |
| Futures | 344.2 | 1.4 | 2.8 |
| Options (OTC) | 410.4 | 1.9 | 2.2 |
| **Total interest rate derivatives 31.12.2011** | **6 106.6** | **60.7** | **66.5** |
| Total interest rate derivatives 31.12.2010 | 4 578.9 | 33.1 | 34.3 |
| **Precious metals derivatives** | | | |
| Forward contracts | 4 671.6 | 139.9 | 155.6 |
| Futures | 268.9 | 7.2 | - |
| Options (OTC) | 7 168.4 | 164.0 | 145.7 |
| **Total precious metals derivatives 31.12.2011** | **12 108.9** | **311.1** | **301.3** |
| Total precious metals derivatives 31.12.2010 | 16 083.8 | 238.4 | 232.9 |
| **Equity/indices derivatives** | | | |
| Futures | 386.0 | 8.8 | 1.1 |
| Options (OTC) | 6 321.4 | 127.5 | 280.6 |
| Options traded | 1 387.6 | 136.5 | 80.1 |
| **Total equity/indices derivatives 31.12.2011** | **8 095.0** | **272.8** | **361.8** |
| Total equity/indices derivatives 31.12.2010 | 12 190.5 | 201.4 | 215.7 |
| **Other derivatives** | | | |
| Futures | 219.1 | 6.0 | 0.2 |
| **Total other derivatives 31.12.2011** | **219.1** | **6.0** | **0.2** |
| Total other derivatives 31.12.2010 | 223.8 | - | 19.8 |
| **Total derivatives held for trading 31.12.2011** | **141 718.1** | **2 113.6** | **2 102.6** |
| Total derivatives held for trading 31.12.2010 | 171 611.2 | 2 712.6 | 2 766.5 |

## Derivatives held for hedging

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Derivatives designated as cash flow hedges** | | | |
| Interest rate swaps | 100.0 | 0.4 | 8.5 |
| **Derivatives designated as fair value hedges** | | | |
| Equity options (OTC) | 4.9 | - | 4.9 |
| **Total derivatives held for hedging 31.12.2011** | **104.9** | **0.4** | **13.4** |
| Total derivatives held for hedging 31.12.2010 | 38.8 | 0.5 | 5.9 |
| **Total derivative financial instruments 31.12.2011** | **141 823.0** | **2 114.0** | **2 116.0** |
| Total derivative financial instruments 31.12.2010 | 171 650.0 | 2 713.1 | 2 772.4 |

# 25a Financial instruments by category

## Financial assets

| | 31.12.2011 Book value CHF m | 31.12.2011 Fair value CHF m | 31.12.2010 Book value CHF m | 31.12.2010 Fair value CHF m |
|---|---|---|---|---|
| **Cash, loans and receivables** | | | | |
| Cash | **4 241.5** | **4 241.5** | 1 121.3 | 1 121.3 |
| Due from banks | **10 048.1** | **10 061.8** | 6 586.6 | 6 598.9 |
| Loans | **16 408.4** | **16 710.3** | 14 570.4 | 14 774.0 |
| Accrued income | **172.1** | **172.1** | 154.6 | 154.6 |
| **Total** | **30 870.1** | **31 185.7** | 22 432.9 | 22 648.8 |
| **Held for trading** | | | | |
| Trading assets | **4 082.0** | **4 082.0** | 3 287.8 | 3 287.8 |
| Derivative financial instruments | **2 113.6** | **2 113.6** | 2 712.6 | 2 712.6 |
| **Total** | **6 195.6** | **6 195.6** | 6 000.4 | 6 000.4 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **0.4** | **0.4** | 0.5 | 0.5 |
| **Total** | **0.4** | **0.4** | 0.5 | 0.5 |
| **Designated at fair value** | | | | |
| Financial assets designated at fair value | - | - | 1 006.1 | 1 006.1 |
| **Total** | - | - | 1 006.1 | 1 006.1 |
| **Available-for-sale** | | | | |
| Financial investments available-for-sale | **12 168.0** | **12 168.0** | 13 885.1 | 13 885.1 |
| **Total** | **12 168.0** | **12 168.0** | 13 885.1 | 13 885.1 |
| **Total financial assets** | **49 234.1** | **49 549.7** | 43 325.0 | 43 540.9 |

## Financial liabilities

| | 31.12.2011 Book value CHF m | 31.12.2011 Fair value CHF m | 31.12.2010 Book value CHF m | 31.12.2010 Fair value CHF m |
|---|---|---|---|---|
| **Financial liabilities at amortised costs** | | | | |
| Due to banks | **5 670.2** | **5 672.1** | 4 251.8 | 4 255.1 |
| Due to customers | **34 841.2** | **34 844.8** | 28 846.7 | 28 850.0 |
| Debt issued | **475.8** | **527.4** | 240.2 | 269.3 |
| Accrued expenses | **96.9** | **96.9** | 104.3 | 104.3 |
| **Total** | **41 084.1** | **41 141.2** | 33 443.0 | 33 478.7 |
| **Held for trading** | | | | |
| Trading liabilities | **814.1** | **814.1** | 800.9 | 800.9 |
| Derivative financial instruments | **2 102.6** | **2 102.6** | 2 766.5 | 2 766.5 |
| **Total** | **2 916.7** | **2 916.7** | 3 567.4 | 3 567.4 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **13.4** | **13.4** | 5.9 | 5.9 |
| **Total** | **13.4** | **13.4** | 5.9 | 5.9 |
| **Designated at fair value** | | | | |
| Financial liabilities designated at fair value | **3 494.6** | **3 494.6** | 4 160.6 | 4 160.6 |
| **Total** | **3 494.6** | **3 494.6** | 4 160.6 | 4 160.6 |
| **Total financial liabilities** | **47 508.8** | **47 565.9** | 41 176.9 | 41 212.6 |

The following methods are used in calculating 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 book 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.

**Trading assets, financial investments available-for-sale and derivative financial instruments**

Refer to Note 25b for details regarding the valuation of these instruments.

## 25b Financial instruments – Fair value determination

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

For financial instruments for which quoted market prices are not directly available, 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 (level 2). 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 include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model or generalisations of that 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.

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 (level 3). In 2011, the Julius Baer Group did not have or transfer any such instruments.

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

| **Determination of fair values** | Quoted market price Level 1 *CHF m* | Valuation technique market-observable inputs Level 2 *CHF m* | **31.12.2011** **Total** *CHF m* |
|---|---|---|---|
| Trading assets | 3 300.70 | 781.3 | **4 082.0** |
| Derivative financial instruments | 166.1 | 1 947.9 | **2 114.0** |
| Financial investments available-for-sale | 7 994.6 | 4 173.4 | **12 168.0** |
| **Total assets at fair value** | **11 461.4** | **6 902.6** | **18 364.0** |
| Trading liabilities | 380.0 | 434.1 | **814.1** |
| Derivative financial instruments | 90.4 | 2 025.6 | **2 116.0** |
| Financial liabilities designated at fair value | 1 103.3 | 2 391.3 | **3 494.6** |
| **Total liabilities at fair value** | **1 573.7** | **4 851.0** | **6 424.7** |

| Determination of fair values | Quoted market price Level 1 *CHF m* | Valuation technique market-observable inputs Level 2 *CHF m* | 31.12.2010 Total *CHF m* |
|---|---|---|---|
| Trading assets | 2 456.5 | 831.3 | 3 287.8 |
| Derivative financial instruments | 50.0 | 2 663.1 | 2 713.1 |
| Financial assets designated at fair value | 937.1 | 69.0 | 1 006.1 |
| Financial investments available-for-sale | 7 086.1 | 6 799.0 | 13 885.1 |
| Total assets at fair value | 10 529.7 | 10 362.4 | 20 892.1 |
| Trading liabilities | 535.1 | 265.8 | 800.9 |
| Derivative financial instruments | 107.5 | 2 664.9 | 2 772.4 |
| Financial liabilities designated at fair value | 2 966.4 | 1 194.2 | 4 160.6 |
| Total liabilities at fair value | 3 609.0 | 4 124.9 | 7 733.9 |

In the past, each financial instrument with a price adjustment was classified as a level 2 instrument. As of the financial year 2011, the Group classifies financial instruments with price adjustments which are not significant into level 1. The previous year has been adjusted accordingly (trading assets CHF 597.5 million from level 1 to level 2 and financial investments available-for-sale CHF 6 510.0 million from level 2 to level 1).

# 26 Companies consolidated as at 31 December 2011

## Listed company which is consolidated

| | Place of listing | Head Office | Currency | Share capital m | Capitalisation as at 31.12.11 m |
|---|---|---|---|---|---|
| Julius Baer Group Ltd. | SIX Swiss Exchange | Zurich | CHF | 4.1 | 7 592 |

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

## Unlisted companies which are consolidated

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Banks** | | | | |
| Bank Julius Baer & Co. Ltd. | Zurich | CHF | 575.000 | 100 |
| *Branches in Ascona, Basle, Berne, Crans-Montana, Geneva, Guernsey,* | | | | |
| *Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore,* | | | | |
| *Sion, St. Gallen, St. Moritz, Verbier, Zug* | | | | |
| *Representative Offices in Abu Dhabi, Dubai, Istanbul,* | | | | |
| *Moscow, Santiago de Chile, Shanghai* | | | | |
| *including* | | | | |
| *Bank Julius Baer Nominees (Singapore) Pte. Ltd.* | *Singapore* | *SGD* | *0.000* | *100* |
| *Arpese SA* | *Lugano* | *CHF* | *0.400* | *100* |
| *Julius Baer Wealth Management (Europe) SA* | *Luxembourg* | *CHF* | *0.200* | *100* |
| *including* | | | | |
| *- Julius Baer Patrimoine Conseil Sàrl* | *Paris* | *EUR* | *0.065* | *100* |
| *Ferrier Lullin Trust Management SA* | *Geneva* | *CHF* | *0.050* | *100* |
| | | | | |
| Bank Julius Bär Europe AG | Frankfurt | EUR | 15.000 | 100 |
| *Branches in Duesseldorf, Hamburg, Kiel, Munich,* | | | | |
| *Stuttgart, Würzburg* | | | | |
| *including* | | | | |
| *Julius Bär Capital GmbH* | *Frankfurt* | *EUR* | *0.024* | *100* |
| | | | | |
| Bank Julius Baer (Monaco) S.A.M. | Monaco | EUR | 30.000 | 100 |
| | | | | |
| Julius Baer Bank and Trust Company Ltd. | Grand Cayman | CHF | 20.000 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (Cayman) Ltd.* | *Grand Cayman* | *CHF* | *1.000* | *100* |
| *including* | | | | |
| *C.I. Directors Ltd.* | *Grand Cayman* | *USD* | *0.020* | *100* |

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Investment Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Life (Bahamas) Ltd.* | *Bahamas* | *USD* | *1.000* | *100* |
| *Julius Baer Consultores S.A.* | *Caracas* | *USD* | *0.800* | *100* |
| *Julius Baer Trust Company (Singapore) Ltd.* | *Singapore* | *SGD* | *2.812* | *100* |
| | | | | |
| Julius Baer Advisory S.A.E. | Cairo | EGP | 12.847 | 100 |
| | | | | |
| Julius Baer Family Office & Trust Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (New Zealand) Limited* | *Auckland* | *CHF* | *0.005* | *100* |
| *Bronte International SA* | *BVI* | *USD* | *0.000* | *100* |
| *Cantrade Corporate Directors Ltd.* | *BVI* | *USD* | *0.000* | *100* |
| | | | | |
| Infidar Investment Advisory Ltd. | Zurich | CHF | 1.000 | 73 |
| *including* | | | | |
| *Infidar (Liechtenstein) AG* | *Vaduz* | *CHF* | *0.100* | *73* |
| | | | | |
| JB Swiss Capital Market Research Ltd. | Zurich | CHF | 0.100 | 100 |
| | | | | |
| Julius Baer (Hong Kong) Limited | Hong Kong | HKD | 273.894 | 100 |
| | | | | |
| Julius Baer (Middle East) Ltd. | Dubai | USD | 22.000 | 100 |
| | | | | |
| Julius Baer (Uruguay) S.A. | Montevideo | UYU | 21.760 | 100 |
| | | | | |
| Julius Baer Capital (Guernsey) I Ltd. | Guernsey | CHF | 0.000 | 100 |
| | | | | |
| Julius Baer Consultores (Peru) S.A.C. | Lima | PEN | 3.000 | 100 |
| | | | | |
| Julius Baer Fiduciaria S.r.l. | Milan | EUR | 0.100 | 100 |

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Financial Consultancy S.A. | Buenos Aires | USD | 0.493 | 100 |
| Julius Baer International Ltd. | London | GBP | 16.300 | 100 |
| Julius Baer International (Panama) Inc. | Panama | CHF | 1.387 | 100 |
| *including* | | | | |
| *Julius Baer Bank & Trust (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| *including* | | | | |
| *Julius Baer Trust Company (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| Julius Baer Investment Advisory GesmbH | Vienna | EUR | 0.050 | 100 |
| Julius Bär Lizenzverwertungsgesellschaft AG | Zug | CHF | 0.100 | 100 |
| Julius Baer Participações Brasil Ltda. | São Paulo | BRL | 96.161 | 100 |
| Julius Baer Società Di Intermediazione Mobiliare S.p.A. | Milan | EUR | 3.500 | 100 |
| *including* | | | | |
| *Representative Office in Rome* | | | | |
| Julius Baer Trust Company (Channel Islands) Ltd. | Guernsey | CHF | 0.100 | 100 |
| Julius Baer Wealth Management (Monaco) S.A.M. | Monaco | EUR | 0.465 | 100 |
| PT Julius Baer Advisors (Indonesia) | Jakarta | IDR | 2 000.000 | 100 |
| Ursa Company Ltd. | Grand Cayman | CHF | 0.500 | 100 |
| **Real estate company** | | | | |
| Aktiengesellschaft, formerly Waser Söhne & Cie., Werdmühle, Altstetten | Zurich | CHF | 2.260 | 100 |
| **Foundation** | | | | |
| Loteco Foundation | Zurich | CHF | 0.100 | 100 |
| **Associates** | | | | |
| GPS – Global Portfolio Strategists | São Paulo | BRL | 0.280 | 30 |

## Major changes in the companies consolidated:

- Baer Alternative Solutions Limited, Guernsey, liquidated as of 24 October 2011

# 27a Acquisitions

On 15 January 2010, Julius Baer Group acquired ING Bank (Switzerland) Ltd, a fully owned subsidiary of ING Group NV, including its subsidiaries in Monaco and Jersey. The Group paid a total consideration of CHF 499.1 million in cash. The purchase price was fully funded by existing excess capital of the Group. ING Bank (Switzerland) Ltd, which was active in private banking business, has been fully integrated into Bank Julius Baer & Co. Ltd. At the time of acquisition, the assets under management amounted to CHF 13.5 billion.

The assets and liabilities of the acquired entity were recorded as follows:

| | Fair value *CHF 1000* |
|---|---|
| **Assets** | |
| Cash | 265 214 |
| Due from banks | 1 745 884 |
| Loans[1] | 1 185 488 |
| Financial investments available-for-sale | 349 989 |
| Customer relationships | 163 007 |
| Goodwill | 4 348 |
| Deferred tax assets | 3 313 |
| All other assets | 83 209 |
| **Total** | 3 800 452 |

| | |
|---|---|
| **Liabilities and equity** | |
| Due to banks | 1 118 446 |
| Due to customers | 2 053 444 |
| Deferred tax liabilities | 33 034 |
| All other liabilities | 96 457 |
| Total liabilities | 3 301 381 |
| Equity | 499 071 |
| **Total** | 3 800 452 |

[1]At the acquisition date, the gross contractual amount of loans acquired was CHF 1223.2 million.

The transaction resulted in goodwill of CHF 4.3 million, which represents expected synergies and growth opportunities from the combined private banking activities. Other intangible assets recognised consist of CHF 163.0 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of ten years.

On 3 May 2011, Julius Baer Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ("GPS"). The Group paid a total consideration of CHF 52.2 million in cash. The Group also received options to acquire additional interests in GPS at a predetermined relative price. The options will be exercisable two to four years after the initial acquisition.

GPS is specialised in discretionary portfolio management and advisory services. The minority participation is treated as a strategic investment and the future close co-operation will further add growth momentum for GPS. In addition, the acquisition supports the Group's strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets.

The associated company had the following balance sheet and income statement totals on an aggregated basis as of the acquisition date:

| | CHF 1000 |
|---|---|
| Assets | 5 753 |
| Liabilities | 2 000 |
| Operating income | 6 940 |
| Net profit | 4 230 |

## 27b Disposal group held for sale

The assets and liabilities held for sale (CHF 566 million and CHF 565 million, respectively) relate to the expected disposal of the business of investment contracts where the beneficiary bears all the related risks and rewards from the investments. Previously the amounts were included in financial assets designated at fair value and financial liabilities designated at fair value, respectively. The portfolio which is concentrated in Julius Baer Life (Bahamas) Ltd. is expected to be disposed of in 2012.

# 28 Share-based payments

### Equity-based incentives

The Compensation Committee of the Board of Directors is responsible for determining and making changes to all of the equity-based incentives. The programmes described below reflect the plan landscape as at 31 December 2011. However, the two new plans (i.e. Premium Share Plan and Incentive Share Plan, see below) have not yet been implemented fully. The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market.

**Staff Participation Plan**
The Staff Participation Plan of the Julius Baer Group offers employees once a year the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

Theobjectiveofthisplanistostrengthentheidentification with the Group and its future development of employees on all levels of the organisation. The offer price for the 2011 Staff Participation Plan was 25% below the average weighted market value of the shares of Julius Baer Group Ltd. for the period from 1 March until 11 March 2011.

**Equity Bonus Plan**
Up to 2006, eligible senior managers had the possibility to choose to have part or all of their bonus paid out in the form of the former Julius Baer Holding Ltd. shares and/or options on such shares at market price. The shares and options acquired in this way are subject to a sales restriction period.

**Long-Term Incentive Plan**
The purpose of the Julius Baer Group Long-Term Incentive Plan (LTI) is to strengthen long-term commitment to the Company and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. The LTI is part of the total compensation of the Board of Directors and in some individual cases is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation. In addition, it may be granted in special cases to employees who have a significant influence on the Julius Baer Group's long-term development and financial results.

The LTI runs over a three-year plan period and is applied with two different vesting schedules. Under the first vesting schedule, the participants are granted a number of shares which vest in equal one-third tranches over the period of three years. Under the second vesting schedule, participants are granted a number of shares which cliff-vest in one single tranche at the end of the three-year period.

The shares are transferred to participants at vesting dates, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

### Equity-based incentives with a deferral component

The two plans described below are mutually exclusive, i.e. an employee can only receive a grant from one of the plans described in any given year.

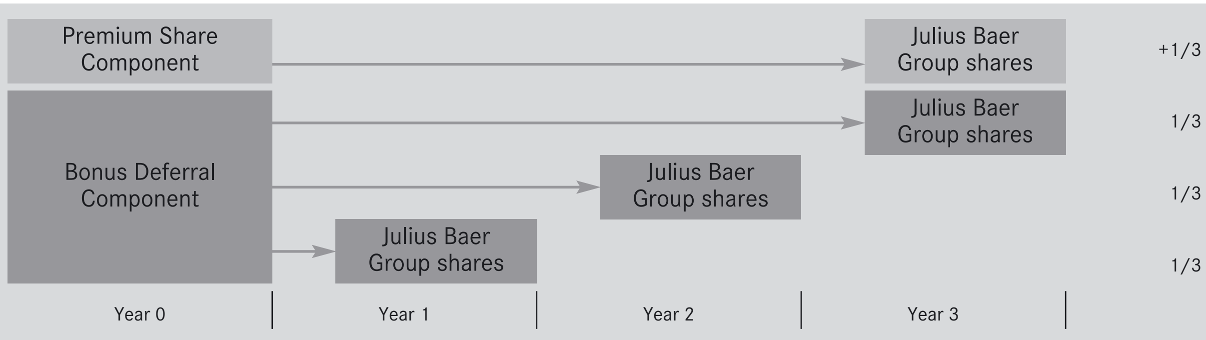
**Premium Share Plan**
The Premium Share Plan (PSP) is a three-year deferred equity plan which applies to senior members of the staff whose variable compensation amounts to CHF 150 000 or more (or a local equiva-

lent). A PSP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through its share price.

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the employee's variable incentive is deferred to the PSP, 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 a three-year plan period. 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/her at the plan beginning.

**PSP structure and payout schedule**




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 Group or caused reputational damage.

The plan was implemented as part of the variable compensation for 2011.

**Incentive Share Plan**
The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of staff whose contributions are decisive for the long-term development of the Julius Baer Group and whose variable compensation amounts to CHF 150 000 or more (or a local equivalent). ISP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis.

The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payout depends on achievement against two key performance indicators (KPIs) over a three-year period:

*Economic Profit*, which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

*Relative Share Price,* which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

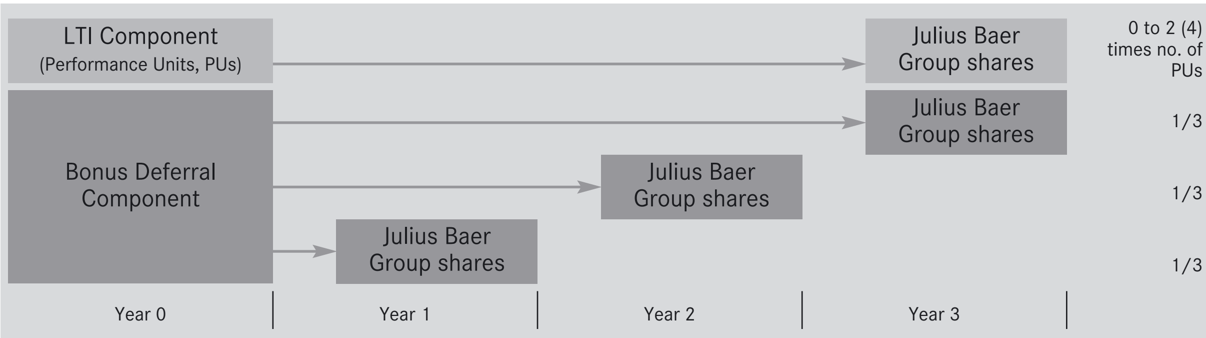
At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or, as it may be, the local equivalent) of the executive's variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted one performance unit (PU) for each granted ISP share which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period and are settled in the form of Julius Baer Group shares. At settlement the number of these additional shares can be between zero and two times the number of PUs for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer and zero to four times the number of PUs for members of the Senior Management and of the Executive Board of Bank Julius Baer. The final ratio between the granted PUs and the number of shares at settlement is determined by a final payout factor which is derived from the two KPIs which both carry equal weight in determining the final payout factor.

The plan provides participants with a symmetric upside (capped at 2 or 4) and downside (limited to 0) potential.

Including the value development of the PUs the ISP can represent between 15% and 67% (77% for members of the Senior Management) of the total variable compensation of the executive.

**ISP structure and payout schedule**




Until vested, the PUs/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 Group or caused reputational damage.

The ISP was applied for the first time to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee approved the list of ISP participants and the individual allocations as part of the variable compensation for 2011 on 23 January 2012.

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

| | **31.12.2011** | 31.12.2010 |
|---|---|---|
| **Staff Participation Plan** | | |
| Number of shares taken up | **340 842** | 347 994 |
| Preferential price per share (CHF) | **31.04** [1] | 26.71 [2] |
| Compensation expense (CHF 1000) | **3 528** | 3 097 |

[1]The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 11 March 2011.
[2]The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.

### Equity Bonus Plan

Bonuses paid in the form of shares are recognised in the year in which the corresponding service is performed. Bonuses paid in the form of options which can be cash-settled are also recognised in the year in which the service is performed, and until realisation (sale or exercise) these options are recognised in the balance sheet as a liability at fair value. The net compensation expense recognised for the financial year resulted in an income due to favourable changes in the fair value of the liabilities and amounted to CHF 0.3 million in 2010, CHF nil in 2011.

| | **31.12.2011** | 31.12.2010 |
|---|---|---|
| **Long-Term Incentive Plan** | | |
| Unvested shares outstanding, at the beginning of the year | **515 001** | 472 668 |
| Granted during the year | **179 377** | 293 634 |
| Vested during the year | **-314 193** | -244 749 |
| Forfeited during the year | **-27 033** | -6 552 |
| Unvested shares outstanding, at the end of the year | **353 152** | 515 001 |
| Weighted average fair value per share granted (CHF) | **36.80** | 34.12 |
| Fair value of outstanding shares at the end of the year (CHF 1000) | **12 975** | 22 557 |

| | **31.12.2011** | 31.12.2010 |
|---|---|---|
| **Incentive Share Plan** | | |
| Unvested shares outstanding, at the beginning of the year | **-** | - |
| Granted during the year | **272 020** | - |
| Vested during the year | **-** | - |
| Forfeited during the year | **-1 352** | - |
| Unvested shares outstanding, at the end of the year | **270 668** | - |
| Weighted average fair value per share granted (CHF) | **43.10** | - |
| Fair value of outstanding shares at the end of the year (CHF 1000) | **9 944** | - |

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

| | Number of options | **31.12.2011** Weighted average exercise price *CHF* | Number of options | 31.12.2010 Weighted average exercise price *CHF* |
|---|---|---|---|---|
| **Equity Bonus Plan** | | | | |
| Options outstanding, at the beginning of the year | - | - | 191 380 | 55.00 |
| Exercised during the year | - | - | -191 380 | 55.00 |
| Options outstanding, at the end of the year | - | - | - | - |

| | Number of options | **31.12.2011** Weighted average exercise price *CHF* | Number of options | 31.12.2010 Weighted average exercise price *CHF* |
|---|---|---|---|---|
| **Long-Term Incentive Plan** | | | | |
| Options outstanding, at the beginning of the year | - | - | 479 196 | 91.20 |
| Vested/exercised during the year | - | - | -479 196 | 91.20 |
| Options outstanding, at the end of the year | - | - | - | - |

| | Number of units Economic Profit | **31.12.2011** Number of units Relative Share Price | Number of units Economic Profit | 31.12.2010 Number of units Relative Share Price |
|---|---|---|---|---|
| **Incentive Share Plan** | | | | |
| Unvested units outstanding, at the beginning of the year | - | - | - | - |
| Granted during the year | **126 500** | **126 500** | - | - |
| Forfeited during the year | **-2 973** | **-2 973** | - | - |
| Unvested units outstanding, at the end of the year | **123 527** | **123 527** | - | - |

The compensation expense recognised for the Long-Term Incentive Plan amounted to CHF 9.3 million (2010: CHF 17.6 million).

The compensation expense recognised for the Incentive Share Plan amounted to CHF 10.0 million.

# 29 Assets under management

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as 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 Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. 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 stated according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

## Assets under management

| | 2011 CHF m | 2010 CHF m | Change % |
|---|---|---|---|
| Assets with discretionary mandate | **24 422** | 22 955 | 6.4 |
| Other assets under management | **145 898** | 146 715 | -0.6 |
| **Total assets under management (including double counting)**[1] | **170 320** | 169 670 | 0.4 |
| *of which double counting* | ***2 491*** | *2 851* | *-12.6* |
| Change through net new money | **10 196** | 8 753 | |
| Change through market and currency impacts | **-9 546** | -6 195 | |
| Change through acquisition | **-** | 13 510 [2] | |
| Client assets | **258 113** | 267 313 | -3.4 |

[1] On 3 May 2011, the Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A. with assets under management of BRL 9 billion as at 31 December 2011. Assets under management of this company are not consolidated by the Group and are therefore not included in these numbers.
[2] On 15 January 2010, the Group acquired ING Bank (Switzerland) Ltd.

## Breakdown of assets under management

| | 2011 % | 2010 % |
|---|---|---|
| **By types of investment** | | |
| Equities | **25** | 26 |
| Bonds (including convertible bonds) | **23** | 22 |
| Investment funds | **19** | 20 |
| Money market instruments | **8** | 9 |
| Client deposits | **18** | 15 |
| Structured products | **5** | 6 |
| Other | **2** | 2 |
| **Total** | **100** | 100 |

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

# 30 Requirements of Swiss banking law

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Swiss-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 ruled by the principal provisions of the Banking Ordinance and the related Guidelines governing financial statement reporting.

The following main differences exist between IFRS and Swiss GAAP (true and fair view) which are relevant to the Group:

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

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, certain income and expenses are classified as extraordinary, e.g. if they are from non-operating transactions or are non-recurring.

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.

Under IFRS, intangible assets with indefinite lives are not amortised but tested for impairment on an annual basis. Under Swiss GAAP, such intangible assets are amortised over the useful lives up to a maximum of five years, and tested for impairment.

# 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 2011 financial year.

# Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of

**Julius Baer Group Ltd., Zurich**

As statutory auditor, we have audited the accompanying consolidated financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 42 to 130) for the year ended 31 December 2011.

*Board of Directors' Responsibility*

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

KPMG

***Julius Baer Group Ltd., Zurich***
*Report of the Statutory Auditor*
*on the Consolidated 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 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

Daniel Senn
*Licensed Audit Expert*
*Auditor in Charge*

Hans Stamm
*Licensed Audit Expert*

Zurich, 3 February 2012

## Julius Baer Group Ltd.

### *Consolidated Financial Statements as at and for the years ended 31 December 2010 and 2009 (prepared in accordance with IFRS)*

# Consolidated financial statements
## Consolidated income statement

| | Note | **2010** CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|---|
| Interest income | | **519 477** | 576 488 | -9.9 |
| Interest expense | | **64 104** | 110 013 | -41.7 |
| Net interest income | 1 | **455 373** | 466 475 | -2.4 |
| Fee and commission income | | **1 197 095** | 1 006 240 | 19.0 |
| Commission expense | | **216 725** | 187 556 | 15.6 |
| Net fee and commission income | 2 | **980 370** | 818 684 | 19.7 |
| Net trading income | 3 | **332 340** | 298 538 | 11.3 |
| Other ordinary results | 4 | **26 297** | 2 430 | - |
| **Operating income** | | **1 794 380** | 1 586 127 | 13.1 |
| Personnel expenses | 5 | **823 740** | 688 744 | 19.6 |
| General expenses | 6 | **376 009** | 301 848 | 24.6 |
| Depreciation of property and equipment | 13 | **28 449** | 22 777 | 24.9 |
| Amortisation of customer relationships | 13 | **91 606** | 76 371 | 19.9 |
| Amortisation of other intangible assets | 13 | **40 324** | 21 823 | 84.8 |
| **Operating expenses** | | **1 360 128** | 1 111 563 | 22.4 |
| **Profit before taxes** | | **434 252** | 474 564 | -8.5 |
| Income taxes | 7 | **81 483** | 85 266 | -4.4 |
| **Net profit** | | **352 769** | 389 298 | -9.4 |
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | | **351 992** | 388 699 | -9.4 |
| Non-controlling interests | | **777** | 599 | - |
| | | **352 769** | 389 298 | -9.4 |

| | Note | **2010** CHF | 2009 CHF | Change % |
|---|---|---|---|---|
| **Share information** | | | | |
| Basic net profit per share | 9 | **1.71** | 1.88 | -9.2 |
| Diluted net profit per share | 9 | **1.71** | 1.88 | -9.1 |
| Dividend proposal 2010 and dividend 2009 | | **0.60** | 0.40 | 50.0 |

# Consolidated statement of comprehensive income

| | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| **Net profit recognised in the income statement** | **352 769** | 389 298 |
| Other comprehensive income (net of taxes): | | |
| Net unrealised gains/(losses) on financial investments available-for-sale | **12 604** | 79 787 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | **18 283** | 26 364 |
| Hedging reserve for cash flow hedges | **977** | 3 125 |
| Translation differences | **-29 281** | -2 433 |
| **Other comprehensive income for the year recognised directly in equity** | **2 583** | 106 843 |
| **Total comprehensive income for the year recognised in the income statement and in equity** | **355 352** | 496 141 |
| Attributable to: | | |
| Shareholders of Julius Baer Group Ltd. | **354 575** | 495 542 |
| Non-controlling interests | **777** | 599 |
| | **355 352** | 496 141 |

# Consolidated balance sheet

| | Note | **31.12.2010** CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | | **1 121 310** | 2 814 818 | -1 693 508 |
| Due from banks | 10 | **6 586 620** | 6 598 181 | -11 561 |
| Loans | 10 | **14 570 410** | 10 431 185 | 4 139 225 |
| Trading assets | 11 | **3 751 967** | 2 735 065 | 1 016 902 |
| Derivative financial instruments | 23 | **2 713 110** | 1 859 252 | 853 858 |
| Financial assets designated at fair value | 16 | **1 006 134** | 963 566 | 42 568 |
| Financial investments available-for-sale | 12 | **13 885 105** | 15 011 513 | -1 126 408 |
| Property and equipment | 13 | **371 803** | 331 922 | 39 881 |
| Goodwill and other intangible assets | 13 | **1 797 777** | 1 705 318 | 92 459 |
| Accrued income and prepaid expenses | | **174 646** | 141 245 | 33 401 |
| Deferred tax assets | 18 | **10 074** | 3 474 | 6 600 |
| Other assets | | **297 645** | 133 430 | 164 215 |
| **Total assets** | | **46 286 601** | 42 728 969 | 3 557 632 |

| | Note | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 | Change<br>CHF 1000 |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Due to banks | | **4 251 834** | 3 962 382 | 289 452 |
| Due to customers | | **28 846 738** | 27 284 715 | 1 562 023 |
| Trading liabilities | 11 | **800 882** | 714 886 | 85 996 |
| Derivative financial instruments | 23 | **2 772 368** | 1 786 221 | 986 147 |
| Financial liabilities designated at fair value | 16 | **4 160 559** | 3 942 687 | 217 872 |
| Debt issued | 17 | **240 210** | 253 502 | -13 292 |
| Accrued expenses and deferred income | | **349 505** | 308 316 | 41 189 |
| Current tax liabilities | | **44 834** | 11 141 | 33 693 |
| Deferred tax liabilities | 18 | **121 893** | 85 761 | 36 132 |
| Provisions | 19 | **32 196** | 17 291 | 14 905 |
| Other liabilities | | **181 535** | 170 276 | 11 259 |
| Total liabilities | | **41 802 554** | 38 537 178 | 3 265 376 |
| Share capital | | **4 133** | 4 133 | - |
| Retained earnings | | **4 581 923** | 4 312 902 | 269 021 |
| Other components of equity | | **-81 778** | -84 361 | 2 583 |
| Treasury shares | | **-22 472** | -42 622 | 20 150 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | | **4 481 806** | 4 190 052 | 291 754 |
| Non-controlling interests | | **2 241** | 1 739 | 502 |
| Total equity | | **4 484 047** | 4 191 791 | 292 256 |
| **Total liabilities and equity** | | **46 286 601** | 42 728 969 | 3 557 632 |

# Consolidated statement of changes in equity

| | Share capital *CHF 1000* | Retained earnings [1] *CHF 1000* |
|---|---|---|
| At 1 January 2009 represented | 4 133 | 3 701 098 |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | - | 388 699 |
| Net profit attributable to non-controlling interests | - | - |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Dividends | - | -72 321 [2] |
| Contribution received due to the Artio Global IPO | - | 309 000 |
| Treasury shares and own equity derivative activity | - | -13 574 |
| Changes in derivatives on own shares | - | - |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | - |
| At 31 December 2009 | 4 133 | 4 312 902 |
| **At 1 January 2010** | **4 133** | **4 312 902** |
| Net profit attributable to shareholders of Julius Baer Group Ltd. | - | **351 992** |
| Net profit attributable to non-controlling interests | - | - |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Dividends | - | **-82 652** |
| Treasury shares and own equity derivative activity | - | **-319** |
| Changes in derivatives on own shares | - | - |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | - |
| **At 31 December 2010** | **4 133** | **4 581 923** |

[1]Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the share premium of Julius Baer Group Ltd.
[2]The amount is based on the assumption that the Group contributed to the dividend distributed by the former Julius Baer Holding Ltd. (see page 50).

| | Other components of equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Financial investments available-for-sale, net of taxes *CHF 1000* | Hedging reserve for cash flow hedges, net of taxes *CHF 1000* | Translation differences *CHF 1000* | Treasury shares *CHF 1000* | Equity attributable to shareholders of Julius Baer Group Ltd. *CHF 1000* | Non-controlling interests *CHF 1000* | **Total equity** *CHF 1000* |
| | -171 390 | -4 188 | -15 626 | -30 881 | 3 483 146 | 1 415 | 3 484 561 |
| | - | - | - | - | 388 699 | - | 388 699 |
| | - | - | - | - | - | 599 | 599 |
| | 79 787 | 3 125 | - | - | 82 912 | - | 82 912 |
| | 26 364 | - | - | - | 26 364 | - | 26 364 |
| | - | - | -2 433 | - | -2 433 | - | -2 433 |
| | - | - | - | - | -72 321 | -275 | -72 596 |
| | - | - | - | - | 309 000 | - | 309 000 |
| | - | - | - | - | -13 574 | - | -13 574 |
| | - | - | - | 920 | 920 | - | 920 |
| | - | - | - | -183 038 | -183 038 | - | -183 038 |
| | - | - | - | 170 377 | 170 377 | - | 170 377 |
| | -65 239 | -1 063 | -18 059 | -42 622 | 4 190 052 | 1 739 | 4 191 791 |
| | **-65 239** | **-1 063** | **-18 059** | **-42 622** | **4 190 052** | **1 739** | **4 191 791** |
| | **-** | **-** | **-** | **-** | **351 992** | **-** | **351 992** |
| | **-** | **-** | **-** | **-** | **-** | **777** | **777** |
| | **12 604** | **977** | **-** | **-** | **13 581** | **-** | **13 581** |
| | **18 283** | **-** | **-** | **-** | **18 283** | **-** | **18 283** |
| | **-** | **-** | **-29 281** | **-** | **-29 281** | **-** | **-29 281** |
| | **-** | **-** | **-** | **-** | **-82 652** | **-275** | **-82 927** |
| | **-** | **-** | **-** | **-** | **-319** | **-** | **-319** |
| | **-** | **-** | **-** | **26 477** | **26 477** | **-** | **26 477** |
| | **-** | **-** | **-** | **-142 469** | **-142 469** | **-** | **-142 469** |
| | **-** | **-** | **-** | **136 142** | **136 142** | **-** | **136 142** |
| | **-34 352** | **-86** | **-47 340** | **-22 472** | **4 481 806** | **2 241** | **4 484 047** |

# Consolidated statement of cash flows

| | **2010** CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| Net profit | **352 769** | 389 298 |
| 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 | **28 449** | 22 777 |
| - Amortisation of intangible assets | **131 930** | 98 194 |
| - Allowance for credit losses | **10 535** | 6 092 |
| - Deferred tax expense/(benefit) | **-5 028** | -13 248 |
| - Net loss/(gain) from investing activities | **21 872** | 8 155 |
| - Other non-cash income and expenses | **20 393** | 9 695 |
| Net increase/decrease in operating assets and liabilities: | | |
| - Net due from/to banks | **590 987** | 1 327 527 |
| - Trading portfolios and derivative financial instruments | **-797 640** | -1 328 390 |
| - Loans/due to customers | **-3 454 763** | 1 167 063 |
| - Accrued income, prepaid expenses and other assets | **-161 439** | 67 466 |
| - Accrued expenses, deferred income, other liabilities and provisions | **-18 873** | -243 153 |
| Adjustment for income tax expenses | **86 511** | 98 514 |
| Income taxes paid | **-60 985** | -100 031 |
| Cash flow from operating activities after taxes | **-3 255 282** | 1 509 959 |
| Purchase of property and equipment and intangible assets | **-96 959** | -66 839 |
| Disposal of property and equipment and intangible assets | **17 235** | 258 |
| Net (investment in)/divestment of financial investments available-for-sale | **-1 935 187** | -1 695 063 |
| Acquisition of subsidiaries, net of cash acquired | **-233 857** | -9 045 |
| Cash flow from investing activities | **-2 248 768** | -1 770 689 |
| Net money market instruments issued/(repaid) | **-13 292** | 22 335 |
| Net movements in treasury shares and own equity derivative activity | **-857** | -39 152 |
| Dividend payments | **-82 652** | -72 321 |
| Contribution received due to the Artio Global IPO | **-** | 309 000 |
| Issuance and repayment of long-term debt, including financial liabilities designated at fair value | **175 304** | 847 482 |
| Dividend payment to non-controlling interests | **-275** | -275 |
| Cash flow from financing activities | **78 228** | 1 067 069 |
| **Total** | **-5 425 822** | 806 339 |

| | | |
|---|---|---|
| Cash and cash equivalents at the beginning of the year | **18 390 505** | 17 591 612 |
| Cash flow from operating activities after taxes | **-3 255 282** | 1 509 959 |
| Cash flow from investing activities | **-2 248 768** | -1 770 689 |
| Cash flow from financing activities | **78 228** | 1 067 069 |
| Effects of exchange rate changes | **298 427** | -7 446 |
| **Cash and cash equivalents at the end of the year** | **13 263 110** | 18 390 505 |

Cash and cash equivalents are structured as follows:

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 |
|---|---|---|
| Cash | **1 121 310** | 2 814 818 |
| Money market instruments | **5 993 113** | 9 086 662 |
| Due from banks (original maturity of less than three months) | **6 148 687** | 6 489 025 |
| **Total** | **13 263 110** | 18 390 505 |

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 |
|---|---|---|
| **Additional information** | | |
| Interest received | **424 265** | 642 877 |
| Interest paid | **-53 631** | -131 642 |
| Dividends on equities received | **68 648** | 16 250 |
| **Total** | **439 282** | 527 485 |

# Separation of the businesses of the former Julius Baer Holding Ltd.

**The transaction**

Following a strategic review conducted during early 2009, the Board of Directors of the former Julius Baer Holding Ltd. decided to separate the businesses of the former Julius Baer Holding Ltd. into two distinct, independent entities, both listed on the SIX Swiss Exchange, being:

- Julius Baer Group Ltd., together with its subsidiaries, comprising Bank Julius Baer & Co. Ltd. as its principal operating entity, as well as certain related ancillary businesses; and
- GAM Holding Ltd., together with its subsidiaries, comprising GAM, and the Julius Baer-branded asset management business (the JBAM business), which includes the Private Label Funds business that formerly was part of Julius Baer Holding's Bank Julius Baer reporting segment, and its stake in Artio Global whose initial public offering was completed by 24 September 2009.

On 1 October 2009, Julius Baer Group Ltd.'s shares were distributed as a dividend in kind to holders of Julius Baer Holding Ltd.'s shares and were listed according to the main standard of and traded on the SIX Swiss Exchange. The former Julius Baer Holding Ltd. was renamed GAM Holding Ltd.

The following financial report comprises the financial statements of the new Julius Baer Group Ltd. only.

**Future relationship of Julius Baer Group and GAM Holding**

Following the completion of the transaction, Julius Baer Group and GAM Holding operate as separate, publicly listed corporate groups. Each group is managed by its own Board of Directors and management team and, subject to certain transitional arrangements, deals on an arm's-length basis with each other. Each of the two listed groups addresses its own capital management separately.

Consistent with the separation of the two businesses of private banking and asset management, production and management of Julius Baer-branded investment fund products will be carried out by GAM Holding. For this purpose, the Julius Baer Group entered into an arm's-length royalty-generating brand licence with GAM Holding pursuant to which GAM Holding has the exclusive right to produce and manage Julius Baer-branded investment fund products worldwide. Subject to certain limited exceptions, the Julius Baer Group will refrain from offering investment fund management services for the duration of the licence.

**Accounting impact on financial statements 2009**

The Julius Baer Group is the continuation of the private banking business of the former Julius Baer Holding. Therefore, in the financial statements as at 31 December 2009, the new Julius Baer Group is presented as if it had already existed on 1 January 2008. For this purpose, the income, expenses and balances relating to the new Group have been separated from the previously published financial statements 2008 and 2009 of Julius Baer Holding. In addition, the effects of any intercompany transactions and balances between the Julius Baer Group and the new GAM Holding have been converted into third-party transactions and balances.

Additional details regarding the separation of the former Julius Baer Holding and the respective accounting impacts have been published in the Listing Prospectus, dated 24 September 2009.

# Summary of significant accounting policies

## Basis of accounting

Julius Baer Group Ltd. is a Swiss corporation which was established in 2009 as a result of the separation of the private banking and asset management businesses of the former Julius Baer Holding Ltd. (see page 50 for the details of the transaction). The consolidated financial statements as at 31 December 2010 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 4 February 2011. In addition, they must be approved by the Ordinary Annual General Meeting on 7 April 2011.

Amounts in the annual 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.

## 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 discussed in the corresponding notes: determining fair values of financial instruments, uncertainties in measuring provisions and allowance for credit losses, pension assets and liabilities (measurement of defined benefit obligation), deferred tax assets (use of tax losses), share-based payments, goodwill and other intangible assets (measurement of recoverable amount).

## Accounting policies

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

**Subsidiaries and associates**
Subsidiaries in which Julius Baer Group Ltd. directly or indirectly owns a majority of the voting shares or in which it exercises control in some other way are fully consolidated. A complete list of these companies is provided in Note 25. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

The effects of all intercompany transactions and balances are eliminated on consolidation.

**Foreign currency translation**
The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other comprehensive income.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

| | Year-end rates | | Average exchange rates for the year | |
|---|---|---|---|---|
| | **31.12.2010** | 31.12.2009 | **2010** | 2009 |
| USD/CHF | **0.9321** | 1.0337 | **1.0365** | 1.0825 |
| EUR/CHF | **1.2505** | 1.4832 | **1.3690** | 1.5070 |
| GBP/CHF | **1.4594** | 1.6694 | **1.5985** | 1.6945 |

**Reporting of transactions**
Money market transactions are recorded on the balance sheet on settlement date. Spot foreign exchange and securities transactions and securities underwriting transactions are recorded on the balance sheet on trade date. All financial instruments are assigned to one of the four categories (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) and uniformly recognised within these categories on trade date or settlement date.

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

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

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

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

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

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

If securities are transferred in a securities lending or borrowing transaction, cash collateral received is recognised as an obligation, and cash collateral provided is recognised as a receivable.

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 collateral provided or received.

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.

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 income.

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

**Financial assets and liabilities designated at fair value**

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

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

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

In addition, the Group reports assets and liabilities related to investment contracts where the beneficiary bears all the related risk and rewards from the investments, as designated at fair value.

**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. In order to calculate the fair value, corresponding stock exchange prices, discounted cash flow models and option pricing models are employed. Derivatives are reported as an asset position if their fair value is positive and as a liability position if their fair value is negative. Changes in fair value on trading positions are recognised in net trading income.

The Group uses derivative financial instruments for hedging the cash flows (cash flow hedges) or fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their settlement 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 cash flow hedges are recognised in other comprehensive income and reported as hedging reserve for cash flow hedges. If a hedge of a probable forecast transaction results in the recognition of a financial asset or financial liability, any gain or loss on the hedging instrument that was previously recognised in other components of equity is reclassified into the income statement in the same period in which the financial asset or liability affects income. If the hedged forecast transaction results in direct recognition through the income statement, any related cumulative gain or loss previously recognised in other components of equity is recognised in the income statement in the same period in which the hedged forecast transaction affects income.

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.

Certain derivative transactions represent financial hedging transactions and are in line with the risk management principles of the Group. However, in view of the strict and specific guidelines of IFRS, they do not fulfil the criteria to be treated as hedging transactions for accounting purposes. They 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 recognised 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 initial 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 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 provision for reinstatement costs is recognised to reflect the obligation incurred. The reinstatement costs are recognised in the income statement through depreciation of the capitalised leasehold improvements over their useful life.

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

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:* inabusinesscombination,theacquiree's identifiableassetsandliabilitiesarerecognisedat theirrespectivefairvalueatacquisitiondate.Good-will is measured as the difference between the sum of the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquiree, 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. Customer relationships are amortised over their estimated useful life not exceeding ten years, using the straight-line method.

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

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

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

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

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

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

Restructuring provisions in the event of sale or termination of a line of business, closure or relocation of business locations, changes in management structure or another fundamental reorganisation are recognised if a constructive obligation is incurred and a detailed and formal restructuring plan exists. In addition, the implementation must have begun or the announcement of the main features to the employees affected must have taken place before the balance sheet date. Restructuring provisions include only necessary direct expenditures caused by the restructuring, not costs associated with the ongoing business activities.

**Income taxes**
Income tax expense comprises current and deferred taxes. 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 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 other components of equity.

**Post-employment benefits**
The Group maintains various defined contribution and defined benefit pension plans in Switzerland and abroad. The pension plans in Switzerland have been set up on the basis of the Swiss method of defined contributions but do not fulfil all the criteria of a defined contribution pension plan according to IAS 19. For this reason, the Swiss pension plans are treated as defined benefit pension plans.

The pension obligations are largely covered through pension plan assets of pension funds that are legally separated and independent from the Group. The pension funds are managed by a board of trustees consisting of representatives of the employees and the employer. The organisation, management and financing of the pension plans comply with the legal requirements, the foundation charters and the applicable pension regulations. 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 financed through employer and employee contributions.

In the case of defined benefit pension plans, the pension expenses and obligations are valued according to the projected unit credit method. The corresponding calculations are carried out by independent qualified actuaries.

The pension expenses recognised in the income statement for the defined benefit pension plans correspond to the actuarially determined pension cost minus the employee contributions and are recorded in personnel expenses.

A portion of actuarial gains and losses are recognised if the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period are in excess of 10% of the greater of the present value of the plan obligation or the fair value of plan assets and are systematically amortised through the income statement over the expected average remaining service lives of employees participating in the plan.

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

Defined benefit assets are only recognised in the balance sheet if they are available to the Group as refunds or future reductions in contributions.

**Share-based payments**
The Group maintains various share-based payment plans in the form of share or share option 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.

Share-based payment plans that are settled in own equity instruments (shares or options) result in a corresponding increase in equity and are not remeasured for subsequent changes in the fair value of the underlying equity instruments. Share-based payment plans that are settled by the payment of cash are recognised as a liability and are adjusted through the income statement for changes in fair value of the underlying equity instruments until final settlement.

**Share capital**
The share capital comprises all issued, fully paid shares of Julius Baer Group Ltd. Please refer to the Note on page 50 regarding the separation of the former Julius Baer Holding Ltd.

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

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

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

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

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

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

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

## Changes in accounting policies

The Group applied the following new and revised accounting standards for the first time in 2010:

**Eligible Hedged Items (Amendment to IAS 39 – Financial Instruments: Recognition and Measurement)**
The amendment provides clarification on two issues in relation to hedge accounting: a) inflation can only be designated as a hedged risk or portion if it is a contractually specified portion of the cash flows (for example, in an inflation-linked bond where the inflation feature is not a separable embedded derivative); and b) the time value of a purchased option used as a hedging instrument is not a risk or portion present in a hedged item and would cause ineffectiveness if the entire option is designated. The amendment had no impact on the Group's financial statements.

**Improvements to IFRSs**
A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments had no material impact on the Group's financial statements.

## New standards and interpretations not yet adopted

Certain new standards, revisions and interpretations of existing standards were published that must be applied in future financial periods. The Group plans not to adopt these in advance. These changes are not expected to have any significant impact on the Group's consolidated financial statements, except for the new IFRS 9 standard.

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

**Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)**
The new disclosure requirements enable the users to a) understand the relationship between transferred financial assets (e.g. securitisations) that are not derecognised in their entirety and the associated liability; and b) evaluate the nature of, and the risks associated with, the entity's continuing involvement in derecognised financial assets.

The amendment does not change the existing derecognition requirements.

**IFRS 9 – Financial Instruments**
The new standard, which is the first part of replacement of IAS 39, includes the following changes to current accounting for financial instruments:

- all recognised financial assets are measured at either amortised cost or fair value;
- only a debt instrument that (a) is held within a business model whose objective is to collect the contractual cash flows and (b) has contractual cash flows that are solely payments of principal and interest may be measured at amortised cost;
- if a debt instrument measured at amortised cost is derecognised prior to maturity, the gain or loss has to be presented separately in the income statement, with an analysis of that gain or loss and the reasons for the sale;

- for debt instruments, classification as trading (i.e. at fair value) and a fair value option are available;
- equity instruments are to be measured at fair value, with the default recognition of gains and losses recognised in the income statement;
- equity instruments designated as at fair value through other comprehensive income: only if an equity instrument is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income (equity), without any subsequent reclassification to the income statement (i.e., the current requirement to perform an assessment of impairment and to reclassify cumulative gains and losses on disposal no longer applies).

The new standard will be applicable as of 1 January 2013, with earlier application permitted. The impact of the new standard on the Group's financial statements has not yet been assessed.

**IFRS 9 – Financial Instruments: Financial Liabilities**

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.

**IAS 24 – Related Party Disclosure**

The revised standard provides a simplified definition of related parties by clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard will be applicable as of 1 January 2011.

**Classification of Rights Issues (Amendment to IAS 32 – Financial Instruments: Presentation)**

The amendment specifies that a rights issue offered pro rata to all of an entity's existing shareholders on the exercise of which the entity will receive a fixed amount of cash for a fixed number of the entity's own equity instruments is classified as an equity instrument regardless of the currency in which the exercise price is denominated. The amendment will be applicable as of 1 January 2011.

**Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14)**

The updated interpretation provides guidance on assessing the amount of surplus that can be recognised as an asset in the case of prepayments made by the employer. Such amounts reduce the future minimum funding requirement contributions for future services. The updated interpretation will be applicable for annual periods beginning on or after 1 January 2011.

**IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments**

The interpretation clarifies that the issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability qualifies as consideration paid and therefore as extinguishment of the liability. The entity shall measure the equity instruments issued at the fair value of the equity instruments issued or the fair value of the liability extinguished, whichever is more reliably determinable. Possible gains or losses are to be disclosed separately. The new interpretation will be applicable for annual periods beginning on or after 1 July 2010.

**Improvements to IFRSs**

A number of amendments to several standards are included in the IASB's Annual Improvement Project. The amendments will be applicable as of 1 January 2011.

# Comment on risk and capital management

## Risk management framework and process

### Risk types

For the purposes of this report, risk is defined as the product of the probability of a given event occurring and the extent to which its occurrence could potentially result in an adverse deviation from the Group's defined objectives. Risk management therefore constitutes an integral part of our 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 Julius Baer Group (the Group). The principal risks to which the Group is exposed to 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 authorities, 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 (excluding legal and compliance risk). He coordinates his activities with the GC, who is responsible for the management and control of legal and compliance risk. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance sheet management and capital management, i.e. the maintenance of a sound ratio of eligible capital to risk-weighted positions.

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 Chairman's and Risk Committee's 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, with 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 of Julius Baer

Group Ltd. and/or entities affiliated with it and individuals with whom such entities are closely connected.

The Audit Committee is responsible for 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 Group's operational risk directives.

The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives.

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

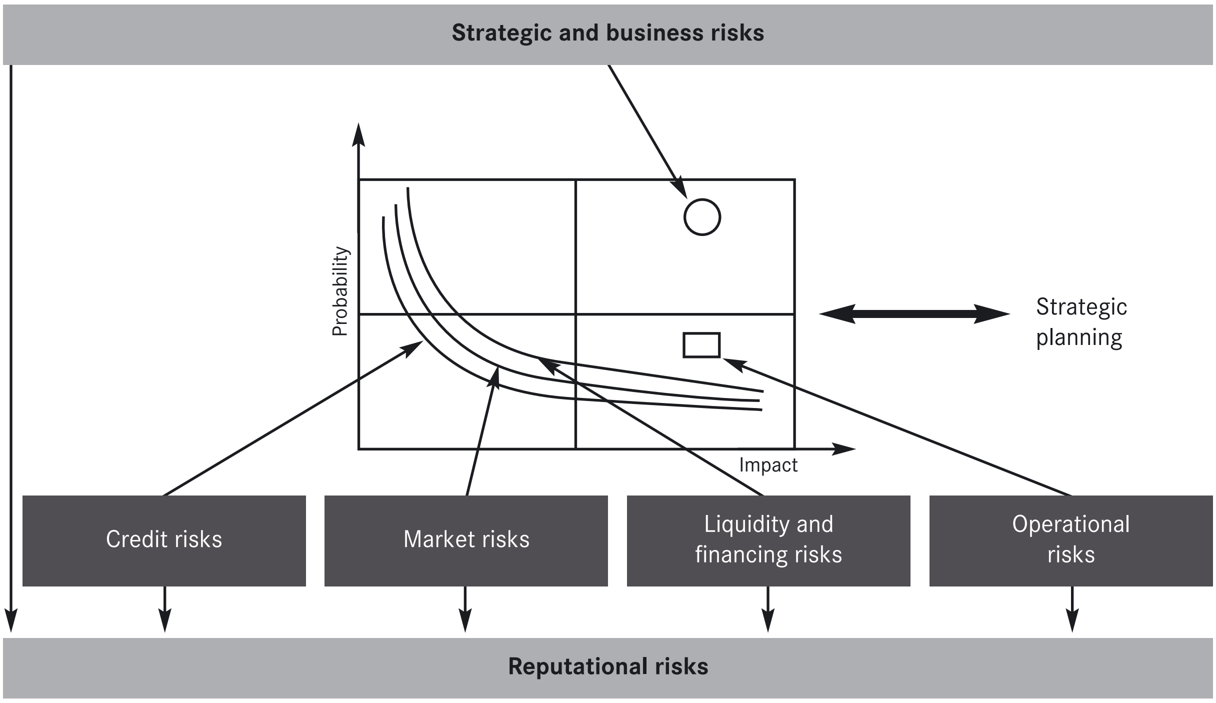
- to formulate policies governing market, liquidity, financing and operational risk in the Group's banking business;
- to allocate risk limits in accordance with those policies;
- to receive and review reports relating to those risks.

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

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

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

**Risk landscape: illustrative diagram**




## Strategic and business risk

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 a 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 into 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 non-compliance with an obligation which a client or a counterparty owes to the Group or to an individual Group company. Such non-compliance may result in a loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk resulting from such transactions may arise from lending or from derivatives exposure resulting from trading activities in foreign exchange, equity, interest rate and commodity products. As part of the risk management process, client portfolios are analysed and rated individually, and an advanceable value is assigned based on the quality of the collateral and the portfolio's diversification. Positions are monitored on a daily basis. A large majority of the collateral is also revalued daily.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on an 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.

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

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

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

The credit risk breakdown, as presented numerically in the tables Credit risk by region, Credit risk by sector, Credit risk secured/not secured and Credit risk by legal risk weights, is provided before deduction of the eligible collaterals and according to the Bank for International Settlement (Basel II BIS approach). Differences between the total amounts and the corresponding balance sheet positions are explained in the section Reconciliation of credit risk totals with balance sheet positions (see pages 69ff.).

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of credit, however, the determining factor is either the domicile of the pledger, i.e. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

## Credit risk by region

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | **31.12.2010** **Total** CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 682 | 4 338 | 112 | 1 096 | - | **6 228** |
| Loans | 4 730 | 4 299 | 3 183 | 2 246 | 132 | **14 590** |
| Financial investments available-for-sale | 1 491 | 10 309 | 1 159 | 826 | 11 | **13 796** |
| Derivative financial instruments | 795 | 910 | 363 | 325 | 5 | **2 398** |
| Contingent liabilities | 95 | 240 | 98 | 39 | 5 | **477** |
| Irrevocable commitments | 45 | 2 | - | - | - | **47** |
| Securities lending and repo transactions | 1 478 | 3 080 | 462 | 300 | 3 | **5 323** |
| **Total** | 9 316 | 23 178 | 5 377 | 4 832 | 156 | **42 859** |

| | Switzerland CHF m | Europe CHF m | Americas CHF m | Asia/Pacific CHF m | Other countries CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|---|---|---|
| Due from banks | 315 | 3 964 | 174 | 840 | 1 | 5 294 |
| Loans | 3 280 | 3 174 | 2 349 | 1 535 | 107 | 10 445 |
| Financial investments available-for-sale | 1 093 | 11 790 | 1 434 | 567 | 12 | 14 896 |
| Derivative financial instruments | 550 | 688 | 221 | 138 | 7 | 1 604 |
| Contingent liabilities | 65 | 216 | 114 | 25 | 4 | 424 |
| Irrevocable commitments | 16 | 2 | - | - | - | 18 |
| Securities lending and repo transactions | 1 857 | 3 045 | 692 | 284 | - | 5 878 |
| Total | 7 176 | 22 879 | 4 984 | 3 389 | 131 | 38 559 |

In the following table the counterparty industry code serves as the fundamental basis for the sector breakdown. For the secured portion of credit, however, the determining factor is either the industry code of the pledger, i.e. the industry code of the issuer of securities which are pledged as collateral, or the industry code of the guarantor.

The column other is used for disclosure of securities from companies outside of the financial sector: these consist of proprietary positions of the Group which are reported under the balance sheet position financial investments available-for-sale as well as of the portion of credit secured by securities of companies outside of the financial sector.

## Credit risk by sector

| | | | | | **31.12.2010** |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | **Total** *CHF m* |
| Due from banks | - | 6 228 | - | - | **6 228** |
| Loans | 939 | 2 656 | 8 284 | 2 711 | **14 590** |
| Financial investments available-for-sale | 4 509 | 7 529 | - | 1 758 | **13 796** |
| Derivative financial instruments | 48 | 1 642 | 579 | 129 | **2 398** |
| Contingent liabilities | 12 | 160 | 214 | 91 | **477** |
| Irrevocable commitments | 28 | 1 | 18 | - | **47** |
| Securities lending and repo transactions | 845 | 3 155 | 101 | 1 222 | **5 323** |
| **Total** | 6 381 | 21 371 | 9 196 | 5 911 | **42 859** |

| | | | | | 31.12.2009 |
|---|---|---|---|---|---|
| | Government and agencies *CHF m* | Financial institutions *CHF m* | Private clients *CHF m* | Other *CHF m* | Total *CHF m* |
| Due from banks | - | 5 294 | - | - | 5 294 |
| Loans | 453 | 1 919 | 6 075 | 1 998 | 10 445 |
| Financial investments available-for-sale | 3 963 | 8 773 | - | 2 160 | 14 896 |
| Derivative financial instruments | 106 | 904 | 529 | 65 | 1 604 |
| Contingent liabilities | 11 | 80 | 257 | 76 | 424 |
| Irrevocable commitments | 8 | 2 | 7 | 1 | 18 |
| Securities lending and repo transactions | 518 | 4 082 | - | 1 278 | 5 878 |
| Total | 5 059 | 21 054 | 6 868 | 5 578 | 38 559 |

As collateral to cover lombard loans, OTC derivatives positions as well as securities lending and repo transactions, primarily readily marketable securities are pledged. In the following table all of the collateral accepted within scope of the capital adequacy regulations is disclosed. The haircuts applied to the collaterals are based on the regulatory standard haircuts of Basel II.

## Credit risk secured/not secured

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | **31.12.2010** **Total** CHF m |
|---|---|---|---|
| Due from banks | 2 109 | 4 119 | **6 228** |
| Loans | 13 496 | 1 094 | **14 590** |
| Financial investments available-for-sale | - | 13 796 | **13 796** |
| Derivative financial instruments | 1 281 | 1 117 | **2 398** |
| Contingent liabilities | 435 | 42 | **477** |
| Irrevocable commitments | 10 | 37 | **47** |
| Securities lending and repo transactions | 4 632 | 691 | **5 323** |
| **Total** | 21 963 | 20 896 | **42 859** |

| | Secured by recognised financial collaterals [1] CHF m | Not secured by recognised financial collaterals CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|
| Due from banks | 2 300 | 2 994 | 5 294 |
| Loans | 9 761 | 684 | 10 445 |
| Financial investments available-for-sale | - | 14 896 | 14 896 |
| Derivative financial instruments | 717 | 887 | 1 604 |
| Contingent liabilities | 396 | 28 | 424 |
| Irrevocable commitments | 7 | 11 | 18 |
| Securities lending and repo transactions | 4 779 | 1 099 | 5 878 |
| Total | 17 960 | 20 599 | 38 559 |

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

The following table gives an overview of the Credit risk by legal risk weights as defined under Basel II. The allocation of the receivables to the risk weights depends on the type and actual rating of the counterparty or the rating of the issue in the case of financial investments. The collateralised part of receivables is allocated to the 0% risk weight column, meaning that no capital is required for the respective outstanding amount.

## Credit risk by legal risk weights

| | 0% CHF m | 20% CHF m | 35% CHF m | 50% CHF m | 75% CHF m | 100% CHF m | 150% CHF m | **31.12.2010** Total CHF m |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 2 444 | 2 667 | - | 1 084 | - | 17 | 16 | **6 228** |
| Loans | 9 749 | 5 | 2 844 | 627 | 58 | 1 278 | 29 | **14 590** |
| Financial investments available-for-sale | 4 226 | 6 384 | - | 3 018 | - | 71 | 97 | **13 796** |
| Derivative financial instruments | 1 281 | 307 | - | 429 | 2 | 379 | - | **2 398** |
| Contingent liabilities | 433 | 2 | - | 3 | 3 | 36 | - | **477** |
| Irrevocable commitments | 10 | 27 | - | - | 1 | 9 | - | **47** |
| Securities lending and repo transactions | 4 632 | 222 | - | - | - | 469 | - | **5 323** |
| **Total** | 22 775 | 9 614 | 2 844 | 5 161 | 64 | 2 259 | 142 | **42 859** |

| | 0% CHF m | 20% CHF m | 35% CHF m | 50% CHF m | 75% CHF m | 100% CHF m | 150% CHF m | 31.12.2009 Total CHF m |
|---|---|---|---|---|---|---|---|---|
| Due from banks | 2 364 | 2 088 | - | 823 | - | 7 | 12 | 5 294 |
| Loans | 7 341 | 9 | 1 922 | 150 | 57 | 926 | 40 | 10 445 |
| Financial investments available-for-sale | 3 796 | 8 112 | - | 2 801 | - | 102 | 85 | 14 896 |
| Derivative financial instruments | 717 | 263 | - | 245 | 2 | 377 | - | 1 604 |
| Contingent liabilities | 396 | - | - | - | 1 | 27 | - | 424 |
| Irrevocable commitments | 7 | 8 | - | - | 2 | 1 | - | 18 |
| Securities lending and repo transactions | 4 779 | 716 | - | - | - | 383 | - | 5 878 |
| Total | 19 400 | 11 196 | 1 922 | 4 019 | 62 | 1 823 | 137 | 38 559 |

## Reconciliation of credit risk totals

As management assesses credit risk based on the capital guidelines of the Basel Committee on Banking Supervision (Basel II BIS approach), the credit risk breakdown, as presented numerically in the tables before, is provided according to these guidelines. Balance sheet and off-balance-sheet positions exposed to credit risks are disclosed, except for the following balance sheet positions which include non-financial instruments: accrued income and prepaid expenses, deferred tax assets and other assets. In the following table the differences between the total amounts according to the Basel II BIS approach and the balance sheet and off-balance-sheet positions in accordance with IFRS are explained.

- The difference in the position Due from banks is due to the fact that under IFRS reverse repurchase transactions are recognised on balance sheet, whereas under the Basel II BIS approach reverse repurchase transactions are disclosed off-balance-sheet in the position Securities lending and repurchase transactions. The credit risk tables are adjusted to avoid double counting.
- The difference in the position Loans is due to the fact that the collective allowance is not deducted from loans under the Basel II BIS approach.
- In the position Financial investments available-for-sale the unrealised gains are deducted from the market value under the Basel II BIS approach.
- The total amount of the derivative financial instruments under the Basel II BIS approach corresponds to the total of the replacement values as disclosed in the balance sheet, plus calculated add-ons, minus under Basel II BIS permissible netting. The add-on is a percentage of the notional amount of the underlying instrument of 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.
- The totals of the off-balance-sheet positions contingent liabilities and irrevocable commitments under the Basel II BIS approach correspond to the calculated credit equivalents. To get the credit equivalent the nominal or net current value of each off-balance-sheet transaction is multiplied 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 contingencies under IFRS.
- Under the Basel II 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 II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 6 228.0 | 6 586.6 | -358.6 | reverse repurchase transactions deducted; collective allowance of CHF 6.2 million not deducted |
| Loans | 14 589.7 | 14 570.4 | 19.3 | collective allowance not deducted |
| Financial investments available-for-sale | 13 796.3 | 13 885.1 | -88.8 | unrealised gains deducted |
| Derivative financial instruments | 2 397.8 | 2 713.1 | -315.3 | |
| *of which security supplement (add-ons)* | | | *945.2* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-1 260.5* | *impact of netting rules under BIS approach* |
| **Total 31.12.2010** | **37 011.8** | **37 755.2** | **-743.4** | |

## Comments to off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 477.1 | 950.9 [1] | -473.8 | converted in credit equivalent |
| Irrevocable commitments | 47.2 | 111.2 [1] | -64.0 | converted in credit equivalent |
| Securities lending and repo transactions | 5 322.5 | 4 978.3 | 344.2 | including risk premium under BIS approach |
| **Total 31.12.2010** | **5 846.8** | | | |

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

## Reconciliation of credit risk totals with balance sheet positions

| | Basel II BIS approach *CHF m* | Balance sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Due from banks | 5 293.9 | 6 598.2 | -1 304.3 | reverse repurchase transactions deducted; collective allowance of CHF 9.2 million not deducted |
| Loans | 10 445.2 | 10 431.2 | 14.0 | collective allowance not deducted |
| Financial investments available-for-sale | 14 896.2 | 15 011.5 | -115.3 | unrealised gains deducted |
| Derivative financial instruments | 1 604.1 | 1 859.3 | -255.2 | |
| *of which security supplement (add-ons)* | | | *557.9* | *according to add-on and netting rules under BIS approach* |
| *of which netting of replacement values* | | | *-813.1* | *impact of netting rules under BIS approach* |
| Total 31.12.2009 | 32 239.4 | 33 900.2 | -1 660.8 | |

## Comments to off-balance-sheet positions

| | Basel II BIS approach *CHF m* | Off-balance-sheet total *CHF m* | Deviation *CHF m* | Comment |
|---|---|---|---|---|
| Contingent liabilities | 424.1 | 848.3 [1] | -424.2 | converted in credit equivalent |
| Irrevocable commitments | 17.6 | 69.6 [1] | -52.0 | converted in credit equivalent |
| Securities lending and repo transactions | 5 877.7 | 5 333.4 | 544.3 | including risk premium under BIS approach |
| Total 31.12.2009 | 6 319.4 | | | |

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

The following table provides an analysis of the Group's exposure to credit risk by credit quality and contains data that is retrieved from the internal Credit Supervision System used for the calculation and monitoring of the Group's exposure to credit risk. Credit exposure is measured against the following two types of limits: a) risk limits for unsecured credit exposures, which applies mainly to banks and brokers, but also includes selected non-financial institutions issuing debt securities; and b) lombard limits for collateralised credit exposures, which relates mainly to private clients.

Credit exposure in the context of this analysis comprises primarily the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivative exposure (replacement value plus add-on), and issuer risk from debt securities in the investment and treasury books of the Group. Not included in the credit exposure analysis are gross exposures from reverse repo and securities lending transactions, as such positions do not create credit exposure due to over-collateralisation on a netted basis. Netted basis means in this context that the margin provided without any regulatory standard haircuts covers the securities position without the addition of a risk premium per transaction. Intraday settlement exposures are also not included in the credit exposure analysis, although monitored separately.

For the purpose of this analysis, cash balances across different accounts are netted against each other for clients with lombard limits. Derivative exposure across different products, accounts and counterparties are netted against each other if an ISDA master netting agreement has been signed (close-out netting).

## Exposure to credit risk by credit rating

| | **31.12.2010** Collateralised *CHF m* | 31.12.2009 Collateralised *CHF m* | **31.12.2010** Unsecured *CHF m* | 31.12.2009 Unsecured *CHF m* |
|---|---|---|---|---|
| Neither past due nor impaired | **16 613.7** | 12 131.5 | **18 795.0** | 20 878.6 |
| Past due but not impaired | **143.5** | - | **-** | - |
| Impaired | **81.8** | 66.9 | **3.6** | 3.5 |
| **Total** | **16 839.0** | 12 198.4 | **18 798.6** | 20 882.1 |
| **Neither past due nor impaired** | | | | |
| R1 to R3 | **13 577.2** | 10 006.6 | **18 275.5** | 20 420.4 |
| R4 to R6 (including temporarily unrated) | **3 036.5** | 2 124.9 | **519.5** | 458.2 |
| **Total** | **16 613.7** | 12 131.5 | **18 795.0** | 20 878.6 |
| **Past due but not impaired** | | | | |
| R7 | **143.5** | - | **-** | - |
| **Total** | **143.5** | - | **-** | - |
| *Collateral held or credit enhancement available* | ***223.0*** | - | **-** | - |
| **Impaired** | | | | |
| R8 | **23.6** | 57.4 | **0.1** | - |
| R9 to R10 | **58.2** | 9.5 | **3.5** | 3.5 |
| **Total** | **81.8** | 66.9 | **3.6** | 3.5 |
| *Collateral held or credit enhancement available* | ***51.9*** | *31.8* | **-** | - |
| **Allowance for credit losses** | | | | |
| Specific allowance for credit losses | **64.0** | 38.8 | **3.6** | 3.5 |
| Collective allowance for credit losses | **21.3** | 14.1 | **6.2** | 9.1 |
| **Total** | **85.3** | 52.9 | **9.8** | 12.6 |

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 balances in rating classes R1–R6, the balances are being serviced, the advance rate of collateral is appropriate, and the repayment of the balance is not doubtful. For these exposures, no specific allowances for credit losses are established. Balances in rating class R7 are past due, but the exposure is still covered by collateral, and allowances are only established for past due interests. For balances in rating class R8, specific allowances for credit losses are established provided that it is more likely than not that a loss could arise. The credit risks of rating classes R9 and R10 are very high, and specific allowances for credit losses are established for balances in these rating classes.

The following table shows the Group's 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 gross carrying amount, net of any amounts offset on the balance sheet or any impairment losses recognised.

**Maximum exposure to credit risk**

| | **31.12.2010** Gross maximum exposure *CHF m* | 31.12.2009 Gross maximum exposure *CHF m* |
|---|---|---|
| Cash (excluding cash on hand) | **1 081.9** | 2 770.3 |
| Due from banks | **6 586.6** | 6 598.2 |
| Loans | **14 570.4** | 10 431.2 |
| Trading assets | **300.9** | 363.3 |
| Derivative financial instruments | **2 713.1** | 1 859.3 |
| Financial investments available-for-sale | **13 738.1** | 14 841.2 |
| Accrued income | **154.6** | 123.7 |
| Other assets | **6.8** | 5.6 |
| **Total maximum exposure to credit risk** | **39 152.4** | 36 992.7 |

# Market risk (trading 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 our 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.

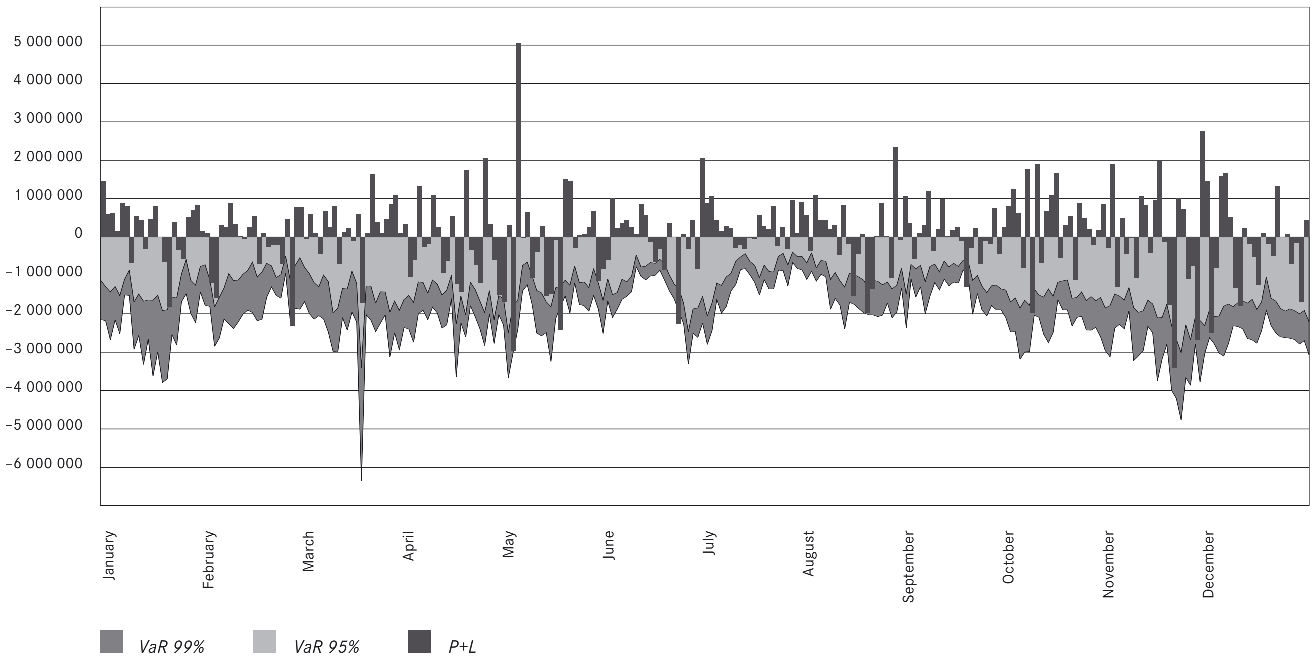
Market risk measures the potential loss to which the Group is exposed through changes in market prices in interest rate, equity, foreign exchange and commodity markets. Market risk management involves the identification, measurement, control and management of the market risks assumed. The trading units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

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

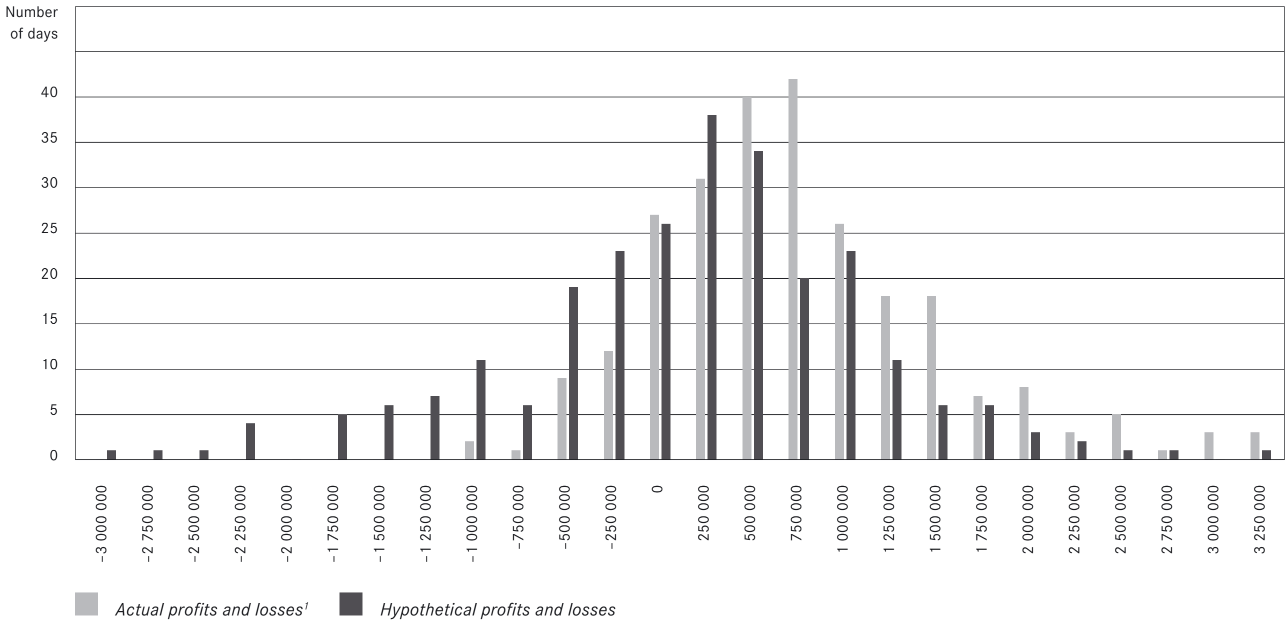
The Group uses the following methods to measure and limit market risk: value at risk (VaR) limits, sensitivity or concentration limits (delta, vega, basis point and nominal limits as well as scenario analysis), and country limits for trading positions. VaR, the key risk figure, measures the magnitude 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 Group amounted to

CHF 2.31 million on 31 December 2010 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2010 amounted to CHF 3.39 million; the minimum was CHF 0.39 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 daily gains and losses generated by the trading book with the VaR values calculated each day. The following chart shows the daily calculations of VaR in 2010 (at confidence intervals of 95% and 99% and for a one-day holding period) compared with the hypothetical gains or losses which would have occurred if the positions had been left unchanged for one day. The second chart compares these hypothetical gains and losses with the actual profit and loss generated by the trading operations of the Group. To ensure comparability, pure commission income has been removed from these profit and loss results.

**Back testing trading of Julius Baer Group for 2010 (CHF)**



**Distribution of daily revenues from trading activities of Julius Baer Group for 2010 (CHF)**




[1] Pure trading revenues excluding commissions and fees

Whereas VaR forecasts identify potential losses during normal market conditions, daily stress tests are carried out in order to estimate the consequences of extreme market swings. Limits are set for both these risk metrics and their utilisation is monitored on a daily basis.

**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 the Swiss Financial Market Supervisory Authority (FINMA) for use in determining the capital requirement for market risks in the trading book. Regulatory approval of our models relates to both so-called general market risk and to issuer-specific risk.

The following table is a summary of the VaR positions of the Group's trading portfolios:

## Market risk – VaR positions by risk type

| | | | | **2010** |
|---|---|---|---|---|
| | At 31 December *CHF 1000* | Average *CHF 1000* | Maximum *CHF 1000* | Minimum *CHF 1000* |
| Equities | **-2 423** | **-1 327** | **-3 307** | **-384** |
| Interest rates | **-1 073** | **-459** | **-1 206** | **-161** |
| Foreign exchange/precious metals | **-262** | **-416** | **-1 497** | **-43** |
| Effects of correlation | **1 442** | | | |
| **Total** | **-2 316** | **-1 350** | **-3 392** | **-393** |

| | | | | 2009 |
|---|---|---|---|---|
| | At 31 December *CHF 1000* | Average *CHF 1000* | Maximum *CHF 1000* | Minimum *CHF 1000* |
| Equities | -706 | -1 201 | -2 554 | -362 |
| Interest rates | -303 | -706 | -1 024 | -303 |
| Foreign exchange/precious metals | -798 | -783 | -2 106 | -111 |
| Effects of correlation | 661 | | | |
| Total | -1 146 | -1 487 | -3 004 | -626 |

# Liquidity, financing and interest rate risks in the banking book

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

Group Treasury manages the liquidity and financing risks on an integrated basis. Currently, the Group's activities are largely financed by client sight deposits. Given its active participation in the interbank market, the Group would, however, quickly be able to access additional sources of refinancing at any time. The liquidity position of Bank Julius Baer & Co. Ltd., in particular, as well as those of the other Group companies, are monitored and managed daily and exceed the regulatory minimum, as required by the Group's liquidity policy. In addition, payment flow simulations are run on a weekly basis in order to analyse the liquidity of the balance sheet under extreme conditions.

Interest rate risk is defined as the impact of potential changes in interest rates on the market value of the assets and liabilities of the Group. One objective measure of this 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 2010. 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 the same magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves of the currencies in which the Group 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<br>*CHF 1000* |
|---|---|---|---|---|---|---|
| **Interest sensitivity by time bands and 100 bp parallel increase** | | | | | | |
| **CHF** | | | | | | |
| **2010** | **830** | **521** | **21 236** | **-25 785** | **-38 959** | **-42 157** |
| 2009 | 805 | 149 | 16 437 | -35 694 | -8 704 | -27 007 |
| **USD** | | | | | | |
| **2010** | **2 222** | **-2 619** | **1 584** | **-3 539** | **-54** | **-2 406** |
| 2009 | 2 806 | -3 444 | 1 107 | -6 701 | -232 | -6 464 |
| **EUR** | | | | | | |
| **2010** | **1 089** | **-1 597** | **-3 631** | **-11 037** | **-43** | **-15 219** |
| 2009 | 1 418 | -3 201 | 5 023 | -8 464 | -268 | -5 492 |
| **Other** | | | | | | |
| **2010** | **987** | **-1 185** | **-269** | **-569** | **-2 415** | **-3 451** |
| 2009 | -244 | -596 | -95 | 271 | -1 588 | -2 252 |

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 twelve months ahead is measured. Based on the assumptions described above, the effect on interest earnings was CHF 1.0 million at the end of 2010 (2009: CHF -7.5 million).

Exposures to risks, other than interest rate and liquidity risks, arising from positions held by the Group in the banking book are limited and monitored using nominal and VaR limits. Price risk exposures arise from positions in equities, funds and non-traditional funds. They are managed by the Group treasury. Currency risks on the banking book are transferred into the trading book. By way of exception, Group entities may carry currency exposures. These exposures are limited and measured according to individual balance sheet management guidelines and are included in the Group's VaR calculation.

**Hedging interest rate risks**

The Group accepts deposits from customers at both floating and fixed rates and for various periods and invests these funds in high-quality assets. Through consolidating the short-term client money taken up and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group hedges a portion of the interest rate risk associated with cash flows resulting from term deposits or term loans by employing interest rate swaps. The market value of these swaps on 31 December 2010 amounted to net CHF -0.4 million (2009: CHF -7.6 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual maturities. Balances are classified as on demand if they may be cancelled at any time.

## Remaining expected maturities of financial assets and liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash | 1 121.3 | – | – | – | – | **1 121.3** |
| Due from banks | – | 6 310.6 | 231.3 | 44.7 | – | **6 586.6** |
| Loans | – | 9 809.5 | 2 446.0 | 1 733.6 | 581.3 | **14 570.4** |
| Trading assets | 3 752.0 | – | – | – | – | **3 752.0** |
| Derivative financial instruments | 2 713.1 | – | – | – | – | **2 713.1** |
| Financial assets designated at fair value | 1 006.1 | – | – | – | – | **1 006.1** |
| Financial investments available-for-sale | – | 5 645.2 | 3 279.1 | 4 323.8 | 637.1 | **13 885.1** |
| Accrued income | – | 154.6 | – | – | – | **154.6** |
| **Total 31.12.2010** | 8 592.5 | 21 919.9 | 5 956.3 | 6 102.1 | 1 218.4 | **43 789.3** |
| Total 31.12.2009 | 8 372.7 | 21 488.5 | 4 688.7 | 5 354.4 | 633.0 | 40 537.3 |

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | – | 4 209.3 | 21.1 | 21.4 | – | **4 251.8** |
| Due to customers | – | 21 616.5 | 5 569.3 | 1 660.9 | – | **28 846.7** |
| Trading liabilities | 800.9 | – | – | – | – | **800.9** |
| Derivative financial instruments | 2 772.4 | – | – | – | – | **2 772.4** |
| Financial liabilities designated at fair value | 1 908.5 | 299.6 | 815.9 | 689.7 | 446.9 | **4 160.6** |
| Debt issued | – | 13.9 | – | 1.3 | 225.0 | **240.2** |
| Accrued expenses | – | 104.3 | – | – | – | **104.3** |
| **Total 31.12.2010** | 5 481.8 | 26 243.6 | 6 406.3 | 2 373.4 | 671.9 | **41 176.9** |
| Total 31.12.2009 | 3 575.8 | 25 435.6 | 6 290.6 | 2 065.4 | 661.3 | 38 028.7 |

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can be cancelled 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 Group.

## Remaining contractual maturities of financial liabilities

| | On demand *CHF m* | Due within 3 months *CHF m* | Due within 3 to 12 months *CHF m* | Due within 12 months to 5 years *CHF m* | Due after 5 years *CHF m* | Total *CHF m* |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Due to banks | 3 224.0 | 810.3 | 211.7 | 9.9 | - | **4 255.9** |
| Due to customers | 24 674.7 | 3 964.9 | 139.4 | 72.5 | - | **28 851.5** |
| Trading liabilities | 800.9 | - | - | - | - | **800.9** |
| Derivative financial instruments | 2 772.4 | - | - | - | - | **2 772.4** |
| Financial liabilities designated at fair value | 1 908.5 | 322.7 | 870.5 | 696.7 | 446.9 | **4 245.3** |
| Debt issued | - | 13.8 | 8.3 | 34.5 | 225.0 | **281.6** |
| Accrued expenses | - | 104.3 | - | - | - | **104.3** |
| **Total 31.12.2010** | 33 380.4 | 5 216.0 | 1 229.9 | 813.6 | 671.9 | **41 311.8** |
| Due to banks | 3 367.3 | 394.3 | 0.3 | 200.6 | - | 3 962.5 |
| Due to customers | 24 847.5 | 2 254.1 | 184.6 | 1.0 | - | 27 287.2 |
| Trading liabilities | 714.9 | - | - | - | - | 714.9 |
| Derivative financial instruments | 1 786.2 | - | - | - | - | 1 786.2 |
| Financial liabilities designated at fair value | 1 074.6 | 1 447.1 | 603.1 | 448.0 | 436.3 | 4 009.1 |
| Debt issued | - | 25.7 | 8.3 | 35.9 | 233.3 | 303.2 |
| Accrued expenses | - | 84.3 | - | - | - | 84.3 |
| Total 31.12.2009 | 31 790.5 | 4 205.5 | 796.3 | 685.5 | 669.6 | 38 147.4 |

# Operational risk

### Operational risk – definition and objectives

Operational risk is defined as the risk of loss resulting from inadequacies or failures either in internal processes, people and/or systems, or from external events.

The qualitative and quantitative standards defined by the Basel Committee for Banking Supervision are met by the current operational risk management and control set-up.

The objectives of the operational risk management process which have been defined for the purpose of avoiding substantial operational losses which could jeopardise the Group's ongoing business activities are the following:

- continuously to pursue the further development of the operational risk control framework, thus enabling the organisation to manage and minimise operational risks effectively;
- to promote a high level of risk awareness at all levels of the organisation;
- to contribute to the enhancement of internal regulations, processes and systems so as to minimise risks;
- to ensure that business operations continue to run smoothly in the event of infrastructure breakdowns and catastrophes (Business Continuity Management);
- to assess all risk-related issues before new services or products are offered;
- to ensure that operational risk reports are submitted to the appropriate levels of management;
- to ensure that shareholders' equity is correctly allocated to cover operational risks.

In addition, the Group's operational risk control framework also covers legal and regulatory risks.

### Risk related to Business Continuity Management

The objectives of Business Continuity Management (BCM) are:

- to promulgate directives and standards which ensure the protection of people within the organisation's premises (clients and staff), information, assets and infrastructure;
- to reduce reputational risks and protect the Julius Baer brand;
- to minimise the probability/impact of events such as business interruptions, pandemics, etc.;
- to maintain the Group's credibility with the media, markets and other stakeholders;
- to meet regulatory, legal and insurance requirements.

BCM assesses the respective risks together with local representatives. The insights thus gained make it possible to define and implement risk mitigation measures in order to achieve adequate protection of people within the organisation's premises, information, assets and building infrastructure throughout the firm. Through a defined set of minimum global standards for the protection of Julius Baer Group premises, BCM ensures that economically viable operational and physical security measures are in place.

### Legal and compliance risk

Legal risk essentially comprises default and liability risk. Default risk is defined as the risk of financial or other loss or injury resulting from a Group company being unable to enforce existing or anticipated rights, most commonly contractual rights, against third parties. Liability risk, on the other hand, arises when a Group company, or someone acting on its behalf, fails to meet an obligation owed to a third party or fails to respect the rights of a third party, and that such failure results in injury to the third party concerned.

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

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

**Personnel risk**

Given the structure of the risks to which we are exposed, our major personnel risks lie in the Group's dependence on highly qualified staff and the availability of the necessary management and leadership capabilities. Based on this risk assessment and given the unchanged demand for qualified staff, our efforts are focused on attracting and developing talented professionals and retaining their services for the long term. The quality of our management's leadership, the attractiveness of our employment conditions, and targeted training and development measures are the critical factors in this regard.

**Insurance**

With the objective of covering or reducing the potential negative financial consequences to which the occurrence of the operational risks described above could lead, the Group takes out insurance cover for specific areas of its business activities in line with general industry practice.

## Reputational risk

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

# Management of capital including regulatory capital

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

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

In 2010, the scope of consolidation used for the calculation of capital adequacy differs from that applied for accounting purposes. Julius Baer Life (Bahamas) Ltd., a Group insurance company founded in 2008, is not consolidated for the calculation of the capital adequacy. For further information about consolidated companies, please refer to Note 25.

In contrast to the calculations carried out for its financial reporting, for which the Group calculates risk-weighted assets according to BIS guidelines, the calculation of the Group's regulatory capital requirement is based on FINMA legal requirements. For its regulatory reporting, the Group applies the Swiss standardised approach (SA-CH). This results in higher risk-weighted assets and, consequently, higher capital requirements than would be required by BIS guidelines.

The tier 1 ratio is required to be at least 4% of risk-weighted assets, and total eligible capital is required to be at least 8% of risk-weighted assets. As at 31 December 2010 and as at 31 December 2009, the Group was adequately capitalised under the respective FINMA and BIS guidelines.

## Capital ratios

| | 31.12.2010<br>CHF m | 31.12.2009<br>CHF m |
|---|---|---|
| **Risk-weighted positions** | | |
| Credit risk | **8 115.9** | 7 140.6 |
| Non-counterparty-related risk | **534.1** | 465.0 |
| Market risk[1] | **514.2** | 708.6 |
| Operational risk[1] | **2 896.3** | 2 656.2 |
| **Total** | **12 060.5** | 10 970.4 |
| **Eligible capital** | | |
| Eligible tier 1 capital | **2 873.4** | 2 656.4 |
| *of which hybrid tier 1 capital* | ***225.0*** | *225.0* |
| Eligible tier 1 and tier 2 capital | **2 933.6** | 2 725.2 |
| BIS tier 1 ratio | **23.8%** | 24.2% |
| BIS tier 1 and tier 2 ratio | **24.3%** | 24.8% |

[1]Risk-weighted figure calculated by taking 12.5 times the capital adequacy requirement according to the applied approach

Hybrid tier 1 capital represents 7.8% of the Group's total tier 1 capital. The hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited. The preferred securities were issued in exchange for a note of Julius Baer Group Ltd., in the same amount and with mirror conditions. Their maturity is essentially perpetual and they are subordinate to all other borrowings. They have a preference over equity with regard to the payment of dividends and liquidation proceeds, though such dividends and liquidation proceeds will be paid only to the extent that they comply with the banking and company law regulations applicable to distributions made by Julius Baer Group Ltd. The preferential dividend right is not cumulative. The preferred securities are fully paid up, devoid of any voting rights or rights associated therewith, capable of sustaining losses, unsecured and repayable at the issuer's option only, no earlier than 2 December 2015 and only with the approval of the regulatory authorities. The hybrid equity created by the issue of preferred securities is recognised in full as core capital for the purpose of adherence to consolidated equity requirements.

The main adjustment to total equity for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table.

Required capital (see table on page 86) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 67% (2009: over 65%) of the total required capital. Capital required for non-counterparty risk (2010: 5%; 2009: 4%) and market risk (2010: 4%; 2009: 7%) is of minor significance. The capital required to cover operational risk accounts for more than 24% of total required capital (2009: 24%).

## Capital components

| | **31.12.2010** *CHF m* | 31.12.2009 *CHF m* |
|---|---|---|
| Gross tier 1 capital after deduction of treasury shares | **4 586.0** | 4 329.1 |
| *of which non-controlling interests* | ***2.1*** | *1.7* |
| *of which innovative capital instruments* | ***225.0*** | *225.0* |
| Goodwill and other intangible assets | **-1 635.4** | -1 572.2 |
| Other deductions | **-77.2** | -100.5 |
| **Eligible tier 1 capital** | **2 873.4** | 2 656.4 |
| Tier 2 capital | **60.2** | 68.8 |
| **Eligible tier 1 and tier 2 capital** | **2 933.6** | 2 725.2 |

## Minimum capital requirement

| | **31.12.2010** *CHF m* | 31.12.2009 *CHF m* |
|---|---|---|
| Credit risk | **649.3** | 571.2 |
| *of which for equity securities in the banking book* | ***9.9*** | *10.8* |
| Non-counterparty-related risk | **42.7** | 37.2 |
| Market risk | **41.1** | 56.7 |
| Operational risk | **231.7** | 212.5 |
| **Total** | **964.8** | 877.6 |

For further details of the Group's capital adequacy under Swiss law, please refer to www.juliusbaer.com (information will be available at the end of April 2011).

# Information on the consolidated income statement

## 1 Net interest income

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Interest income on amounts due from banks | **30 999** | 43 012 | -27.9 |
| Interest income on loans | **239 345** | 223 062 | 7.3 |
| Interest income on money market instruments | **42 867** | 155 056 | -72.4 |
| Interest income on financial investments available-for-sale | **131 625** | 137 165 | -4.0 |
| Dividend income on financial investments available-for-sale | **2 328** | 3 605 | -35.4 |
| Interest income on trading portfolios | **5 993** | 1 943 | 208.4 |
| Dividend income on trading portfolios | **66 320** | 12 645 | 424.5 |
| Total interest income | **519 477** | 576 488 | -9.9 |
| Interest expense on amounts due to banks | **11 612** | 6 438 | 80.4 |
| Interest expense on amounts due to customers | **44 324** | 95 407 | -53.5 |
| Interest expense on debt issued | **8 168** | 8 168 | - |
| Total interest expense | **64 104** | 110 013 | -41.7 |
| **Total** | **455 373** | 466 475 | -2.4 |

## 2 Net fee and commission income

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Investment fund fees | **112 521** | 98 580 | 14.1 |
| Fiduciary commissions | **19 363** | 25 898 | -25.2 |
| Portfolio and other management fees | **600 499** | 499 693 | 20.2 |
| Total fee and commission from asset management | **732 383** | 624 171 | 17.3 |
| Income from brokerage and securities underwriting | **412 853** | 341 856 | 20.8 |
| Commission income on lending activities | **4 759** | 3 400 | 40.0 |
| Commission income on other services | **47 100** | 36 813 | 27.9 |
| Total fee and commission income | **1 197 095** | 1 006 240 | 19.0 |
| Commission expense | **216 725** | 187 556 | 15.6 |
| **Total** | **980 370** | 818 684 | 19.7 |

# 3 Net trading income

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Debt instruments | **8 077** | 10 206 | -20.9 |
| Equity instruments | **-11 238** | 22 250 | -150.5 |
| Foreign exchange | **335 501** | 266 082 | 26.1 |
| **Total** | **332 340** | 298 538 | 11.3 |

# 4 Other ordinary results

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Net gains/(losses) from disposal of financial investments available-for-sale | **-7 010** | -9 344 | 25.0 |
| Real estate income | **5 552** | 5 720 | -2.9 |
| Other ordinary results | **27 755** | 6 054 | 358.5 |
| **Total** | **26 297** | 2 430 | 982.2 |

# 5 Personnel expenses

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Salaries and bonuses | **648 695** | 557 076 | 16.4 |
| Contributions to staff pension plans (defined benefits) | **53 467** | 44 022 | 21.5 |
| Contributions to staff pension plans (defined contributions) | **14 986** | 11 606 | 29.1 |
| Other social security contributions | **53 431** | 48 837 | 9.4 |
| Share-based payments | **20 393** | 9 695 | 110.3 |
| Other personnel expenses | **32 768** | 17 508 | 87.2 |
| **Total** | **823 740** | 688 744 | 19.6 |

# 6 General expenses

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Occupancy expense | **55 236** | 50 164 | 10.1 |
| IT and other equipment expense | **55 595** | 44 965 | 23.6 |
| Information, communication and advertising expense | **118 143** | 94 835 | 24.6 |
| Service expense, fees and taxes | **121 040** | 85 320 | 41.9 |
| Valuation adjustments, provisions and losses | **24 802** | 25 526 | -2.8 |
| Other general expenses | **1 193** | 1 038 | 14.9 |
| **Total** | **376 009** | 301 848 | 24.6 |

# 7 Income taxes

| | 2010<br>CHF 1000 | 2009<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| Income tax on profit before taxes (expected tax expense) | **95 535** | 104 404 | -8.5 |
| Tax rate difference on income of components subject to foreign taxation | **-19 744** | -34 159 | 42.2 |
| Tax rate difference from local differences in domestic tax rates | **-7 949** | -2 168 | -266.7 |
| Lower taxed income | **-12 289** | -13 755 | 10.7 |
| Effect of utilisation of prior-year losses | **-219** | - | - |
| Effect from not capitalised losses | **5 141** | 8 986 | -42.8 |
| Adjustments related to prior years | **-1 894** | 1 349 | -240.4 |
| Non-deductible expenses | **22 665** | 20 567 | 10.2 |
| Other | **237** | 42 | 464.3 |
| **Actual income tax expense** | **81 483** | 85 266 | -4.4 |

A tax rate of 22% (2009: 22%) was applied in the calculation of income tax in Switzerland. Not capitalised accumulated operating loss carryforwards in the amount of CHF 36.5 million (2009: CHF 23.5 million) exist in the Group that do not expire.

| | 2010 CHF 1000 | 2009 CHF 1000 | Change % |
|---|---|---|---|
| Domestic income taxes | **78 888** | 81 749 | -3.5 |
| Foreign income taxes | **2 595** | 3 517 | -26.2 |
| **Total** | **81 483** | 85 266 | -4.4 |

| | | | |
|---|---|---|---|
| Current income taxes | **86 511** | 98 514 | -12.2 |
| Deferred income taxes | **-5 028** | -13 248 | 62.0 |
| **Total** | **81 483** | 85 266 | -4.4 |

## Tax effects relating to components of other comprehensive income

| | | | **2010** |
|---|---|---|---|
| | Before-tax amount CHF 1000 | Tax (expense)/ benefit CHF 1000 | Net-of-tax amount CHF 1000 |
| Net unrealised gains/(losses) on financial investments available-for-sale | 15 294 | -2 690 | 12 604 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 19 349 | -1 066 | 18 283 |
| Hedging reserve for cash flow hedges | 1 253 | -276 | 977 |
| Translation differences | -29 281 | - | -29 281 |
| **Other comprehensive income for the year recognised directly in equity** | **6 615** | **-4 032** | **2 583** |

| | | | 2009 |
|---|---|---|---|
| | Before-tax amount CHF 1000 | Tax (expense)/ benefit CHF 1000 | Net-of-tax amount CHF 1000 |
| Net unrealised gains/(losses) on financial investments available-for-sale | 89 188 | -9 401 | 79 787 |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | 29 580 | -3 216 | 26 364 |
| Hedging reserve for cash flow hedges | 4 006 | -881 | 3 125 |
| Translation differences | -2 433 | - | -2 433 |
| Other comprehensive income for the year recognised directly in equity | 120 341 | -13 498 | 106 843 |

# 8 Reporting by segment

Since the separation of the businesses of the former Julius Baer Holding Ltd. into two distinct, independent entities, the new Julius Baer Group engages exclusively in private banking activities primarily in Switzerland, Europe and Asia. This focus on pure-play private banking has been defined by the new strategy and positioning of the Group. It includes certain internal supporting functions which serve entirely the core business activities. Revenues from private banking activities primarily encompass fees charged for servicing and advising private clients as well as net interest income on financial instruments.

The Group's external segment reporting is based on the internal reporting to the chief operating decision-maker, who is responsible for allocating resources and assesses the financial performance of the business. The CEO has been identified as the chief operating decision-maker, as he is responsible for the operational management of the whole Group.

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

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

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

### Entity-wide disclosures

| | 31.12.2010<br>Total assets<br>CHF m | 31.12.2009<br><br>CHF m | 2010<br>Operating income<br>CHF m | 2009<br><br>CHF m | 2010<br>Investments<br>CHF 1000 | 2009<br><br>CHF 1000 |
|---|---|---|---|---|---|---|
| Switzerland | **37 919** | 34 950 | **1 488** | 1 157 | **271 932** | 68 750 |
| Europe (excl. Switzerland) | **11 653** | 15 102 | **162** | 271 | **28 198** | 1 590 |
| Americas | **1 816** | 1 759 | **44** | 55 | **519** | 2 806 |
| Other countries | **5 422** | 3 784 | **179** | 120 | **10 624** | 4 232 |
| Less consolidation items | **10 523** | 12 866 | **79** | 17 | | |
| **Total** | **46 287** | 42 729 | **1 794** | 1 586 | **311 273** | 77 378 |

The information about geographical areas is based on the domicile of the reporting entity. This geographical information is provided to comply with IFRS and does not reflect the way the Group is managed.

# 9 Earnings per share and shares outstanding

| | 2010 | 2009 |
|---|---|---|
| **Basic net profit per share** | | |
| Net profit (CHF 1000) | **351 992** | 388 699 |
| Weighted average number of shares outstanding | **205 969 204** | 206 601 420 |
| Basic net profit per share (CHF) | **1.71** | 1.88 |
| | | |
| **Diluted net profit per share** | | |
| Net profit (CHF 1000) | **351 992** | 388 699 |
| Less (profit)/loss on equity derivative contracts (CHF 1000) | **-31** | -308 |
| Net profit for diluted EPS (CHF 1000) | **351 961** | 388 391 |
| | | |
| Weighted average number of shares outstanding | **205 969 204** | 206 601 420 |
| Dilution effect | **20 216** | 81 171 |
| Weighted average number of shares outstanding for diluted EPS | **205 989 420** | 206 682 591 |
| | | |
| Diluted net profit per share (CHF) | **1.71** | 1.88 |

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Shares outstanding** | | |
| Total shares issued | **206 630 756** | 206 630 756 |
| Treasury shares | **541 002** | 345 169 |
| **Total** | **206 089 754** | 206 285 587 |

# Information on the consolidated balance sheet

## 10a Due from banks

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 | Change<br>CHF 1000 |
|---|---|---|---|
| Due from banks | **6 596 299** | 6 610 890 | -14 591 |
| Allowance for credit losses | **-9 679** | -12 709 | 3 030 |
| **Total** | **6 586 620** | 6 598 181 | -11 561 |

Due from banks by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **861 856** | 1 548 708 | -686 852 |
| Without collateral | **5 724 764** | 5 049 473 | 675 291 |
| **Total** | **6 586 620** | 6 598 181 | -11 561 |

## 10b Loans

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 | Change<br>CHF 1000 |
|---|---|---|---|
| Loans | **10 991 413** | 8 165 506 | 2 825 907 |
| Mortgages | **3 631 943** | 2 318 417 | 1 313 526 |
| Subtotal | **14 623 356** | 10 483 923 | 4 139 433 |
| Allowance for credit losses | **-52 946** | -52 738 | -208 |
| **Total** | **14 570 410** | 10 431 185 | 4 139 225 |

Loans by type of collateral:

| | | | |
|---|---|---|---|
| Securities collateral | **7 274 644** | 4 749 735 | 2 524 909 |
| Mortgage collateral | **3 607 469** | 2 308 450 | 1 299 019 |
| Other collateral (mainly cash and fiduciary deposits) | **3 375 488** | 3 209 220 | 166 268 |
| Without collateral | **312 809** | 163 780 | 149 029 |
| **Total** | **14 570 410** | 10 431 185 | 4 139 225 |

# 10c Allowance for credit losses

| | **2010** Specific *CHF 1000* | **2010** Collective *CHF 1000* | 2009 Specific *CHF 1000* | 2009 Collective *CHF 1000* |
|---|---|---|---|---|
| Balance at the beginning of the year | **42 295** | **23 152** | 40 753 | 19 778 |
| Write-offs | **-9 553** | **-** | -390 | - |
| Increase in allowance for credit losses | **8 761** | **2 310** | 3 278 | 3 374 |
| Decrease in allowance for credit losses | **-536** | **-** | -171 | - |
| Translation differences and other adjustments | **-3 804** | **-** | -1 175 | - |
| **Balance at the end of the year** | **37 163** | **25 462** | 42 295 | 23 152 |

# 10d Impaired loans

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* | Change *CHF 1000* |
|---|---|---|---|
| Gross loans | **63 204** | 70 441 | -7 237 |
| Specific allowance for credit losses | **-37 163** | -42 295 | 5 132 |
| **Net loans** | **26 041** | 28 146 | -2 105 |

# 11a Trading assets and liabilities

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Trading assets** | | | |
| Debt instruments | **300 944** | 363 340 | -62 396 |
| *of which listed* | ***271 622*** | *266 885* | *4 737* |
| *of which unlisted* | ***29 322*** | *96 455* | *-67 133* |
| Equity instruments | **2 986 846** | 1 992 108 | 994 738 |
| *of which listed* | ***2 300 883*** | *772 297* | *1 528 586* |
| *of which unlisted* | ***685 963*** | *1 219 811* | *-533 848* |
| Precious metals | **464 177** | 379 617 | 84 560 |
| **Total** | **3 751 967** | 2 735 065 | 1 016 902 |

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Trading liabilities** | | | |
| Short positions – debt | **11 699** | 36 728 | -25 029 |
| *of which listed* | ***8 116*** | *4 685* | *3 431* |
| *of which unlisted* | ***3 583*** | *32 043* | *-28 460* |
| Short positions – equity | **789 183** | 678 158 | 111 025 |
| *of which listed* | ***34 599*** | *57 398* | *-22 799* |
| *of which unlisted* | ***754 584*** | *620 760* | *133 824* |
| **Total** | **800 882** | 714 886 | 85 996 |

# 11b Reclassifications

In 2008, the Group reclassified certain trading assets to financial investments available-for-sale, as those assets were no longer held for the purpose of selling them in the near term. In 2009 and 2010, the Group did not reclassify any financial assets.

The carrying amount of these financial investments available-for-sale as at 31 December 2010 is CHF 14.1 million, as compared to CHF 46.8 million in the previous year and CHF 58.0 million in 2008. Changes in fair value recognised in other comprehensive income amounted to CHF -2.3 million (2009: CHF 4.1 million). Financial investments at the carrying amount of CHF 30.5 million (2009: CHF 17.2 million) were sold or matured during the 2010 financial year, with net gains recognised in the income statement of CHF 0.1 million (2009: CHF 1.9 million).

For these financial investments, interest income of CHF 0.8 million was recognised in the income statement (2009: CHF 2.4 million).

# 12a Financial investments available-for-sale

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Money market instruments** | **5 993 113** | 9 086 662 | -3 093 549 |
| Government and agency bonds | **2 517 560** | 931 664 | 1 585 896 |
| Financial institution bonds | **3 368 591** | 2 839 403 | 529 188 |
| Corporate bonds | **1 858 816** | 1 983 515 | -124 699 |
| **Debt instruments** | **7 744 967** | 5 754 582 | 1 990 385 |
| *of which listed* | ***7 323 453*** | *5 170 858* | *2 152 595* |
| *of which unlisted* | ***421 514*** | *583 724* | *-162 210* |
| **Equity instruments** | **147 025** | 170 269 | -23 244 |
| *of which listed* | ***15 172*** | *5 817* | *9 355* |
| *of which unlisted* | ***131 853*** | *164 452* | *-32 599* |
| **Total** | **13 885 105** | 15 011 513 | -1 126 408 |

# 12b Financial investments available-for-sale – Credit ratings

| **Debt instruments by credit rating classes (excluding money market instruments)** | **Fitch, S&P** [1] | **Moody's** [1] | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 | Change CHF 1000 |
|---|---|---|---|---|---|
| 1–2 | AAA – AA- | Aaa – Aa3 | **5 843 183** | 4 062 464 | 1 780 719 |
| 3 | A+ – A- | A1 – A3 | **1 709 393** | 1 428 324 | 281 069 |
| 4 | BBB+ – BBB- | Baa1 – Baa3 | **131 589** | 148 962 | -17 373 |
| 5–7 | BB+ – CCC- | Ba1 – Caa3 | **31 577** | 30 414 | 1 163 |
| Unrated | | | **29 225** | 84 418 | -55 193 |
| **Total** | | | **7 744 967** | 5 754 582 | 1 990 385 |

[1] This document may contain information obtained from third parties, including ratings from rating agencies such as Standard & Poor's, Moody's, Fitch and other similar rating agencies. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Third-party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third-party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third-party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the market value of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

# 13 Intangible assets and property and equipment

| | Goodwill *CHF m* | Customer relationships *CHF m* | Software *CHF m* | **Total intangible assets** *CHF m* | Bank premises *CHF m* | Other property and equipment *CHF m* | **Total property and equipment** *CHF m* |
|---|---|---|---|---|---|---|---|
| **Historical cost** | | | | | | | |
| Balance on 01.01.2009 | 1 113.4 | 750.9 | 198.1 | 2 062.4 | 331.0 | 102.2 | 433.3 |
| Translation differences | - | - | - | - | - | 0.1 | 0.1 |
| Additions | - | 3.7 | 40.9 | 44.5 | 9.5 | 12.8 | 22.3 |
| Acquisition of subsidiaries | 9.1 | 1.2 | - | 10.3 | - | 0.2 | 0.2 |
| Disposals/transfers[1] | - | - | 0.8 | 0.8 | - | 1.2 | 1.2 |
| Balance on 31.12.2009 | 1 122.5 | 755.8 | 238.1 | 2 116.4 | 340.5 | 114.1 | 454.7 |
| Translation differences | - | -2.6 | -0.5 | -3.1 | - | -1.3 | -1.3 |
| Additions | - | - | 68.1 | 68.1 | 7.3 | 21.6 | 28.9 |
| Acquisition of subsidiaries | 4.3 | 163.0 | 1.8 | 169.1 | 41.7 | 3.5 | 45.2 |
| Disposals/transfers[1] | 9.9 [2] | - | 1.6 | 11.5 | 4.9 | 5.0 | 9.9 |
| Balance on 31.12.2010 | 1 117.0 | 916.2 | 305.9 | 2 339.1 | 384.7 | 133.0 | 517.6 |
| | | | | | | | |
| **Depreciation and amortisation** | | | | | | | |
| Balance on 01.01.2009 | - | 230.9 | 82.8 | 313.7 | 41.0 | 60.0 | 101.0 |
| Translation differences | - | - | - | - | - | - | - |
| Charge for the period | - | 76.4 | 21.8 | 98.2 | 5.2 | 17.6 | 22.8 |
| Disposals/transfers[1] | - | - | 0.8 | 0.8 | - | 0.9 | 0.9 |
| Balance on 31.12.2009 | - | 307.3 | 103.8 | 411.1 | 46.2 | 76.6 | 122.8 |
| Translation differences | - | -0.1 | -0.1 | -0.2 | - | -0.8 | -0.8 |
| Charge for the period | - | 91.6 | 40.3 | 131.9 | 6.5 | 21.9 | 28.5 |
| Disposals/transfers[1] | - | - | 1.6 | 1.6 | 0.1 | 4.6 | 4.7 |
| Balance on 31.12.2010 | - | 398.7 | 142.5 | 541.3 | 52.6 | 93.2 | 145.8 |
| | | | | | | | |
| **Book value** | | | | | | | |
| Balance on 31.12.2009 | 1 122.5 | 448.5 | 134.3 | 1 705.3 | 294.3 | 37.5 | 331.9 |
| **Balance on 31.12.2010** | **1 117.0** | **517.4** | **163.4** | **1 797.8** | **332.0** | **39.8** | **371.8** |

[1]Includes derecognition of fully depreciated and amortised assets
[2]In relation to the acquisition of Julius Baer Wealth Management (Monaco) S.A.M., Monaco, final price settlement induced goodwill adjustment

## 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 groups of assets that generate cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit.

The Group uses a proprietary model based on the discounted cash flow method to calculate the recoverable amount. The Group estimates the free cash flows expected to be generated from the continuing use of the cash-generating unit based on its own four-year 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. The Group assumes that markets will remain more volatile than they used to be and that short term disruptions cannot be excluded. However, the Group expects in the medium and long-term a favorable development of the private banking activities which is reflected in the respective growth of the key parameters. The Group 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. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 9.4% (2009: 9.9%).

The Group's approach to determine the key assumptions and related growth expectations is based on management's knowledge and reasonable expectations of future business, using internal and external market information, planned business initiatives and other reasonable intentions of management. For that purpose, the Group uses historical information by taking into consideration the current and expected market situations as well as the current and expected future relative market position of the Group vis-à-vis its respective competitors and in its industry.

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

## Changes in key assumptions

Deviations of future actual results achieved vs. forecasted/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 driven 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 four-year forecast period. 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.

# 14 Operating lease commitments

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Not later than one year | **45 762** | 43 370 |
| Later than one year and not later than five years | **83 262** | 81 302 |
| Later than five years | **98 347** | 61 638 |
| **Subtotal** | **227 371** | 186 310 |
| Less sublease rentals received under non-cancellable leases | **10 540** | 14 944 |
| **Total** | **216 831** | 171 366 |

Operating leases in the gross amount of CHF 45.1 million are included in operating expenses for the 2010 financial year (2009: CHF 45.5 million).

# 15 Assets pledged or ceded to secure own commitments and assets subject to retention of title

| | | **31.12.2010** | | 31.12.2009 |
|---|---|---|---|---|
| | Book value *CHF 1000* | Effective commitment *CHF 1000* | Book value *CHF 1000* | Effective commitment *CHF 1000* |
| Securities | **520 973** | **520 636** | 484 837 | 484 541 |
| Other | **665** | **492** | 548 | 452 |
| **Total** | **521 638** | **521 128** | 485 385 | 484 993 |

The assets are mainly pledged for lombard limits at central banks and for stock exchange securities deposits.

# 16 Financial liabilities designated at fair value

| | 2011 CHF m | 2012 CHF m | 2013 CHF m | 2014 CHF m | 2015 CHF m | 2016–2020 CHF m | **31.12.2010** CHF m | 31.12.2009 CHF m |
|---|---|---|---|---|---|---|---|---|
| **Senior debt** | | | | | | | | |
| Fixed rate | 1 898.5 | 47.0 | 16.9 | 21.0 | - | - | **1 983.5** | 1 889.9 |
| Interest rates (ranges in %) | 0.3–68.5 | 0.2–12.0 | 1.5–3.0 | 6.1 | - | - | **-** | - |
| Floating rate | 673.7 | 176.6 | 50.9 | 31.6 | 8.0 | 230.1 | **1 170.9** | 1 089.2 |
| **Total** | **2 572.3** | **223.6** | **67.9** | **52.5** | **8.0** | **230.1** | **3 154.4** | 2 979.1 |

An additional financial liability designated at fair value of CHF 1006.1 million (2009: CHF 963.6 million) relates to Julius Baer Life (Bahamas) Ltd. and is compensated by respective financial assets designated at fair value in the same amount.

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.2% up to 68.5%. 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 and, where applicable, the application of hedge accounting.

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.

# 17 Debt issued

| | **31.12.2010** CHF 1000 | 31.12.2009 CHF 1000 |
|---|---|---|
| Money market instruments | **15 210** | 28 502 |
| Preferred securities | **225 000** | 225 000 |
| **Total** | **240 210** | 253 502 |

### Preferred securities[1]

| Year of issue | Interest rate % | | Notional amount CHF 1000 | **31.12.2010** Total CHF 1000 | 31.12.2009 Total CHF 1000 |
|---|---|---|---|---|---|
| **Julius Baer Capital (Guernsey) I Ltd.** | | | | | |
| 2005 | 3.63 | Preferred securities | 225 000 | **225 000** | 225 000 |
| **Total** | | | | **225 000** | 225 000 |

[1]See details regarding preferred securities on page 85

# 18a Deferred tax assets

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **3 474** | 1 541 |
| Income statement – credit | **4 606** | 1 795 |
| Income statement – charge | **-28** | -22 |
| Acquisition of subsidiaries | **3 313** | 289 |
| Recognised directly in equity | **10** | - |
| Translation differences and other adjustments | **-1 301** | -129 |
| **Balance at the end of the year** | **10 074** | 3 474 |

The components of deferred tax assets are as follows:

| | | |
|---|---|---|
| Operating loss carryforwards | **7 071** | 3 052 |
| Employee compensation and benefits | **108** | 254 |
| Property and equipment | **92** | 140 |
| Valuation adjustments on loans | **2 793** | - |
| Other | **10** | 28 |
| **Total deferred tax assets** | **10 074** | 3 474 |

# 18b Deferred tax liabilities

| | **31.12.2010** *CHF 1000* | 31.12.2009 *CHF 1000* |
|---|---|---|
| Balance at the beginning of the year | **85 761** | 83 740 |
| Income statement – charge | **-** | 48 |
| Income statement – credit | **-450** | -11 523 |
| Acquisition of subsidiaries | **33 034** | - |
| Recognised directly in equity | **4 042** | 13 498 |
| Translation differences and other adjustments | **-494** | -2 |
| **Balance at the end of the year** | **121 893** | 85 761 |

The components of deferred tax liabilities are as follows:

| | | |
|---|---|---|
| Provisions | **53 976** | 53 976 |
| Property and equipment | **13 812** | 10 228 |
| Financial investments available-for-sale | **24 072** | 21 408 |
| Intangible assets | **30 033** | 149 |
| **Total deferred tax liabilities** | **121 893** | 85 761 |

# 19 Provisions

| | Restructuring CHF 1000 | Legal risks CHF 1000 | Other CHF 1000 | 2010 Total CHF 1000 | 2009 Total CHF 1000 |
|---|---|---|---|---|---|
| Balance at the beginning of the year | - | **14 953** | **2 338** | **17 291** | 36 577 |
| Utilised during the year | **-8 106** | **-14 734** | - | **-22 840** | -25 433 |
| Provisions made during the year | **15 420** | **10 568** | - | **25 988** | 9 330 |
| Provisions reversed during the year | - | **-956** | - | **-956** | -2 814 |
| Acquisition of subsidiaries | - | **14 384** | - | **14 384** | - |
| Other adjustments | - | **-1 671** | - | **-1 671** | -369 |
| **Balance at the end of the year** | **7 314** | **22 544** | **2 338** | **32 196** | 17 291 |
| **Maturity of provisions** | | | | | |
| Up to one year | **7 314** | **1 574** | - | **8 888** | - |
| Over one year | - | **20 970** | **2 338** | **23 308** | 17 291 |

| **Details to restructuring provisions** | | |
|---|---|---|
| Balance at the beginning of the year | - | 17 479 |
| Provisions made during the year | **15 420** | - |
| Provisions used: | | |
| – Personnel | **-7 800** | -17 479 |
| – Occupancy expense | **-306** | - |
| **Balance at the end of the year** | **7 314** | - |

The restructuring provisions made during the 2010 financial year relate to the acquisition of ING Bank (Switzerland) Ltd (see page 121).

The Group is involved in various legal proceedings in the course of normal business operations. The current business environment involves substantial legal and regulatory risks, the impact of which on the financial position or profitability of the Group – depending on the status of related proceedings – is difficult to assess. The Group establishes provisions for pending and threatened legal proceedings if the management is of the opinion that such proceedings are more likely than not to result in a financial obligation or loss or if the dispute for economic reasons should be settled without acknowledgment of any wrongdoing on the part of the Group and if the amount of such obligation or loss can be reasonably estimated. Described below are certain proceedings that might have a material effect on the Group.

In 2010, litigation was commenced against the principal operating entity of the Group, Bank Julius Baer & Co. Ltd. ('the Bank'), and numerous other financial institutions by the liquidators of the Fairfield funds, having acted as feeder funds for the Madoff (Ponzi) investment schemes, in the courts of New York and the British Virgin Islands. Plaintiff(s) have asserted claims to avoid, and for mistake and restitution based on, approximately USD 1.8 billion in payments made by the Fairfield funds and received by the Bank and overall more than 80 further defendants. The complaints also refer to, and in some cases include as defendants, the unnamed beneficial owners of the accounts on whose behalf the payments were made. The current status of the proceedings does not allow a reliable allocation of the claimed amounts to the Bank and the other defendants, and consequently in general a meaningful assessment of the potential outcome is not possible yet. The Bank is challenging the complaints on procedural and substantive grounds and has taken further measures to defend and protect its interests.

In connection with certain private banking client accounts managed by an external asset manager and previously held with the former New York branch of the Bank, as custodian and lender, there are civil legal proceedings pending before New York State Court against the Bank (the principal operating entity of the Group) alleging breach of contract, breach of fiduciary duty, negligence, conversion, unjust enrichment and/or fraud, and unauthorised pledging of client assets arising from and before 2001 when an external asset manager sent forged statements to certain clients and moved funds from certain clients' accounts, and pledged assets in certain clients' accounts, to cover losses in others. Proceedings before a New York arbitration panel in the same matter involving some of the same claimants have been closed in 2010 largely in favour of the Bank, among others also clearly rejecting any allegations of fraud, conspiracy and the like (disputed claims, without interest and unquantifiable claims for punitive damages and counterclaims, all court and arbitration proceedings – the latter closed in the meantime – initially amounted to approximately USD 105 million). Nevertheless, the affected claimants continue with their proceedings that include challenging the arbitration award in state court. The Bank is opposing these claims and has taken appropriate steps and measures to defend its interest.

# Additional information
## 20 Related party transactions

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 |
|---|---|---|
| **Key management personnel compensation**[1] | | |
| Salaries and other short-term employee benefits | **13 025** | 8 378 |
| Post-employment benefits | **678** | 393 |
| Participation plans | **5 466** | 4 505 |
| **Total** | **19 169** | 13 276 |
| **Receivables from** | | |
| key management personnel[1] | **18 531** | 20 311 |
| own pension funds | **-** | 80 |
| **Total** | **18 531** | 20 391 |
| **Liabilities to** | | |
| key management personnel[1] | **16 842** | 26 261 |
| own pension funds | **3 542** | 2 308 |
| **Total** | **20 384** | 28 569 |
| **Credit guarantees to** | | |
| key management personnel[1] | **875** | 15 |
| **Total** | **875** | 15 |
| **Income from services provided to** | | |
| key management personnel[1] | **386** | 892 |
| **Total** | **386** | 892 |

[1] Key management personnel consists of the Board of Directors and the Executive Board of Julius Baer Group Ltd.
2010: The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the General Counsel, the Chief Risk Officer and the Private Banking Representative.
2009: The Executive Board of the Group company consists of the Chief Executive Officer, the Chief Financial Officer, the Chief Communications Officer, the General Counsel and the Chief Risk Officer, three months of Julius Baer Group Ltd. and nine months of the former Julius Baer Holding Ltd.

For compensation, loans and share and option holdings of the Board of Directors and Senior Management, see pages 137-143.

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.

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, though employees of the Group are granted a discounted rate of the Bank's refinancing rate plus 0.25% for fixed mortgages and 0.5% for money market mortgages respectively. Variable mortgages are granted at client rates minus 1%. Interest rates of 0.64% to 4.55% are applied to the mortgage portfolio as at 31 December 2010. The residual maturities of the mortgage loans as at 31 December 2010 range between four days and ten years. Interest rates ranging from 0.49% to 3.45% are charged on the fixed-term lombard loans outstanding as at 31 December 2010.

Other financial services are transacted at arm's length.

# 21 Pension plans and other employee benefits

## Actuarial calculation of pension obligations with respect to employees[1]

| | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| **1. Development of pension obligations and assets** | | |
| Present value of funded obligation at the beginning of the year | **-1 368 939** | -1 356 481 |
| Acquisitions/transfer from restructuring reserve | **-141 494** | -1 634 |
| Service cost | **-76 791** | -70 557 |
| Past service cost | **-** | -66 |
| Interest cost | **-49 500** | -45 537 |
| Settlements | **2 351** | -2 262 |
| Benefits paid | **56 704** | 47 319 |
| Actuarial gain/(loss) | **-122 718** | 64 282 |
| Translation differences | **9 436** | -4 003 |
| Present value of funded obligation at the end of the year | **-1 690 951** | -1 368 939 |
| Fair value of plan assets at the beginning of the year | **1 375 805** | 1 213 546 |
| Acquisitions/transfer from restructuring reserve | **124 664** | 1 634 |
| Expected return on plan assets | **68 311** | 55 338 |
| Employer's contributions | **59 034** | 76 140 |
| Employees' contributions | **26 163** | 24 377 |
| Settlements | **-2 351** | 2 138 |
| Benefits paid | **-56 704** | -47 319 |
| Actuarial gain/(loss) | **18 734** | 46 451 |
| Translation differences | **-8 745** | 3 500 |
| Fair value of plan assets at the end of the year | **1 604 911** | 1 375 805 |

| | 31.12.2010 CHF 1000 | 31.12.2009 CHF 1000 |
|---|---|---|
| **2. Balance sheet** | | |
| Fair value of plan assets | **1 604 911** | 1 375 805 |
| Present value of funded obligation | **-1 690 951** | -1 368 939 |
| (Unfunded)/funded status | **-86 040** | 6 866 |
| Unrecognised plan assets | **-** | -11 083 |
| Unrecognised actuarial (gain)/loss | **88 317** | 17 065 |
| Translation differences | **-1 390** | -568 |
| (Accrued)/prepaid pension cost | **887** | 12 280 |

[1]Benefit obligations and pension costs appear with a negative sign.

The pension plan assets are invested in accordance with local laws and include no shares of Julius Baer Group Ltd.

| 3. Income statement | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| Service cost | **-76 791** | -70 557 |
| Interest cost | **-49 500** | -45 537 |
| Expected net return on plan assets | **68 311** | 55 338 |
| Amortisation of actuarial gain/(loss) | **43** | 66 |
| Past service cost | **-** | -66 |
| Recognised actuarial gain/(loss) | **-32 776** | 3 565 |
| Increase/(decrease) of unrecognised plan assets | **11 083** | -11 083 |
| Settlements | **-** | -125 |
| Net periodic pension cost | **-79 630** | -68 399 |
| Employees' contributions | **26 163** | 24 377 |
| **Expense recognised in the income statement** | **-53 467** | -44 022 |

| 4. Movement in the net asset or (liability) | 2010 CHF 1000 | 2009 CHF 1000 |
|---|---|---|
| (Accrued)/prepaid pension cost at the beginning of the year | **12 280** | -19 593 |
| Acquisitions | **-16 830** | - |
| Translation differences | **-130** | -245 |
| Expense recognised in the income statement | **-53 467** | -44 022 |
| Employer's contributions | **59 034** | 76 140 |
| **Amount recognised in the balance sheet** | **887** | 12 280 |
| Prepaid pension cost | **2 679** | 14 861 |
| Accrued pension liability | **-1 792** | -2 581 |
| **(Accrued)/prepaid pension cost** | **887** | 12 280 |
| **Actual return on plan assets** | **87 045** | 101 789 |

| 5. Asset allocation | 2010 % | 2009 % |
|---|---|---|
| Cash | **2.75** | 1.67 |
| Debt instruments | **37.49** | 42.78 |
| Equity instruments | **26.59** | 27.12 |
| Real estate | **12.52** | 12.51 |
| Other | **20.65** | 15.92 |
| **Total** | **100.00** | 100.00 |

| | 31.12.2010<br>CHF 1000 | 31.12.2009<br>CHF 1000 | 31.12.2008<br>CHF 1000 |
|---|---|---|---|
| **6. Defined benefit pension plans** | | | |
| Fair value of plan assets | **1 604 911** | 1 375 805 | 1 213 546 |
| Present value of funded obligation | **-1 690 951** | -1 368 939 | -1 356 481 |
| (Unfunded)/funded status | **-86 040** | 6 866 | -142 935 |
| Experience adjustment on plan liabilities | **-38 674** | 71 267 | -3 064 |
| Change in assumptions adjustment on plan liabilities | **-84 044** | -6 985 | 37 660 |
| Experience adjustment on plan assets | **18 734** | 46 451 | -238 520 |
| **Total actuarial gain/(loss)** | **-103 984** | 110 733 | -203 924 |

### Defined contribution pension plans

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 15.0 million for the 2010 financial year (2009: CHF 11.6 million).

### Actuarial calculation of pension assets and obligations

The latest actuarial calculation was carried out as at 31 December 2010. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland which accounts for about 95% of all benefit obligations and plan assets:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | **2.60%** | 3.25% |
| Expected net return on plan assets | **3.80%** | 4.50% |
| Average future salary increases | **2.00%** | 1.50% |
| Future pension increases | **0.00%** | 0.00% |

The expected return on funded pension plan assets is based on long-term historical performance of the asset categories as well as expectations for future market performance.

The expected employer contributions for the 2011 financial year are estimated at CHF 54.0 million.

The Group had outstanding liabilities to various pension plans in the amount of CHF 3.5 million (2009: CHF 2.3 million).

# 22 Securities transactions

| | **31.12.2010** CHF m | 31.12.2009 CHF m |
|---|---|---|
| **Securities lending and borrowing transactions / repurchase and reverse repurchase transactions** | | |
| Receivables from cash collateral provided in securities borrowing and reverse repurchase transactions | **402.5** | 1 260.7 |
| Obligations to return cash collateral received in securities lending and repurchase transactions | **585.3** | 320.4 |
| Own securities lent as well as securities provided as collateral for borrowed securities under securities borrowing and repurchase transactions | **1 105.0** | 1 451.2 |
| *of which securities the right to pledge or sell has been granted without restriction* | ***1 105.3*** | *1 451.2* |
| Securities borrowed as well as securities received as collateral for loaned securities under securities lending and reverse repurchase transactions | **4 536.4** | 8 064.0 |
| *of which repledged or resold securities* | ***3 783.5*** | *3 519.2* |

# 23 Derivative financial instruments

## Derivatives held for trading

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Foreign exchange derivatives** | | | |
| Forward contracts | 94 839.9 | 1 524.4 | 1 618.3 |
| Futures | 52.2 | - | 0.9 |
| Options (OTC) | 43 642.1 | 715.3 | 644.6 |
| **Total foreign exchange derivatives 31.12.2010** | **138 534.2** | **2 239.7** | **2 263.8** |
| Total foreign exchange derivatives 31.12.2009 | 157 802.9 | 1 336.1 | 1 299.3 |
| **Interest rate derivatives** | | | |
| Swaps | 3 879.3 | 31.1 | 32.3 |
| Futures | 348.7 | 0.6 | 0.8 |
| Options (OTC) | 350.9 | 1.4 | 1.2 |
| **Total interest rate derivatives 31.12.2010** | **4 578.9** | **33.1** | **34.3** |
| Total interest rate derivatives 31.12.2009 | 2 329.8 | 29.2 | 28.2 |
| **Precious metals derivatives** | | | |
| Forward contracts | 3 289.2 | 102.3 | 108.0 |
| Futures | 145.5 | - | 1.2 |
| Options (OTC) | 12 649.1 | 136.1 | 123.7 |
| **Total precious metals derivatives 31.12.2010** | **16 083.8** | **238.4** | **232.9** |
| Total precious metals derivatives 31.12.2009 | 11 274.2 | 230.1 | 220.3 |
| **Equity/indices derivatives** | | | |
| Futures | 431.2 | 0.7 | 3.4 |
| Options (OTC) | 9 733.3 | 163.4 | 143.1 |
| Options traded | 2 026.0 | 37.3 | 69.2 |
| **Total equity/indices derivatives 31.12.2010** | **12 190.5** | **201.4** | **215.7** |
| Total equity/indices derivatives 31.12.2009 | 6 142.5 | 257.4 | 216.1 |
| **Other derivatives** | | | |
| Futures | 223.8 | - | 19.8 |
| **Total other derivatives 31.12.2010** | **223.8** | **-** | **19.8** |
| Total other derivatives 31.12.2009 | 465.8 | 6.0 | 8.9 |
| **Total derivatives held for trading 31.12.2010** | **171 611.2** | **2 712.6** | **2 766.5** |
| Total derivatives held for trading 31.12.2009 | 178 015.2 | 1 858.8 | 1 772.8 |

## Derivatives held for hedging

| | Contract/ Notional amount *CHF m* | Positive replacement value *CHF m* | Negative replacement value *CHF m* |
|---|---|---|---|
| **Derivatives designated as cash flow hedges** | | | |
| Interest rate swaps | 33.8 | 0.5 | 0.9 |
| **Derivatives designated as fair value hedges** | | | |
| Equity options (OTC) | 5.0 | - | 5.0 |
| **Total derivatives held for hedging 31.12.2010** | **38.8** | **0.5** | **5.9** |
| Total derivatives held for hedging 31.12.2009 | 323.4 | 0.5 | 13.4 |
| **Total derivative financial instruments 31.12.2010** | **171 650.0** | **2 713.1** | **2 772.4** |
| Total derivative financial instruments 31.12.2009 | 178 338.6 | 1 859.3 | 1 786.2 |

# 24a Financial instruments by category

## Financial assets

| | 31.12.2010 Book value CHF m | Fair value CHF m | 31.12.2009 Book value CHF m | Fair value CHF m |
|---|---|---|---|---|
| **Cash, loans and receivables** | | | | |
| Cash | **1 121.3** | **1 121.3** | 2 814.8 | 2 814.8 |
| Due from banks | **6 586.6** | **6 598.9** | 6 598.2 | 6 604.4 |
| Loans | **14 570.4** | **14 774.0** | 10 431.2 | 10 604.7 |
| Accrued income | **154.6** | **154.6** | 123.7 | 123.7 |
| **Total** | **22 432.9** | **22 648.8** | 19 967.9 | 20 147.6 |
| **Held for trading** | | | | |
| Trading assets | **3 287.8** | **3 287.8** | 2 355.4 | 2 355.4 |
| Derivative financial instruments | **2 712.6** | **2 712.6** | 1 858.8 | 1 858.8 |
| **Total** | **6 000.4** | **6 000.4** | 4 214.2 | 4 214.2 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **0.5** | **0.5** | 0.5 | 0.5 |
| **Total** | **0.5** | **0.5** | 0.5 | 0.5 |
| **Designated at fair value** | | | | |
| Financial assets designated at fair value | **1 006.1** | **1 006.1** | 963.6 | 963.6 |
| **Total** | **1 006.1** | **1 006.1** | 963.6 | 963.6 |
| **Available-for-sale** | | | | |
| Financial investments available-for-sale | **13 885.1** | **13 885.1** | 15 011.5 | 15 011.5 |
| **Total** | **13 885.1** | **13 885.1** | 15 011.5 | 15 011.5 |
| **Total financial assets** | **43 325.0** | **43 540.9** | 40 157.7 | 40 337.4 |

## Financial liabilities

| | 31.12.2010 Book value CHF m | 31.12.2010 Fair value CHF m | 31.12.2009 Book value CHF m | 31.12.2009 Fair value CHF m |
|---|---|---|---|---|
| **Financial liabilities at amortised costs** | | | | |
| Due to banks | **4 251.8** | **4 255.1** | 3 962.4 | 3 962.4 |
| Due to customers | **28 846.7** | **28 850.0** | 27 284.7 | 27 286.7 |
| Debt issued | **240.2** | **269.3** | 253.5 | 283.4 |
| Accrued expenses | **104.3** | **104.3** | 84.3 | 84.3 |
| **Total** | **33 443.0** | **33 478.7** | 31 584.9 | 31 616.8 |
| **Held for trading** | | | | |
| Trading liabilities | **800.9** | **800.9** | 714.9 | 714.9 |
| Derivative financial instruments | **2 766.5** | **2 766.5** | 1 772.8 | 1 772.8 |
| **Total** | **3 567.4** | **3 567.4** | 2 487.7 | 2 487.7 |
| **Derivatives designated as hedging instruments** | | | | |
| Derivative financial instruments | **5.9** | **5.9** | 13.4 | 13.4 |
| **Total** | **5.9** | **5.9** | 13.4 | 13.4 |
| **Designated at fair value** | | | | |
| Financial liabilities designated at fair value | **4 160.6** | **4 160.6** | 3 942.7 | 3 942.7 |
| **Total** | **4 160.6** | **4 160.6** | 3 942.7 | 3 942.7 |
| **Total financial liabilities** | **41 176.9** | **41 212.6** | 38 028.7 | 38 060.6 |
| **Total difference between fair value and book value, excluding deferred taxes** | | **180.2** | | 147.8 |

The following methods are used in calculating 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 book 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.

**Trading assets and financial investments available-for-sale**

For the majority of the trading assets and the financial investments available-for-sale (see Notes 11 and 12), the fair value corresponds to the market price. The fair value of instruments without a market price is derived by using generally accepted valuation methods.

**Derivative financial instruments**

The fair value of the derivative financial instruments is derived primarily by using uniform models. If available, the market price is used for derivative instruments.

## 24b Financial instruments – Fair value determination

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

For financial instruments for which quoted market prices are not directly available, 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 (level 2). This is the case for the majority of OTC derivatives, most unlisted financial instruments, and other items that are not traded in active markets. The main pricing models and valuation techniques applied include forward pricing and swap models using present-value calculations, and option models such as the Black-Scholes model or generalisations of that 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.

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 (level 3). In 2010, the Julius Baer Group did not have or transfer any such instruments.

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

| | Quoted market price Level 1 *CHF m* | Valuation technique market-observable inputs Level 2 *CHF m* | **31.12.2010** Total *CHF m* |
|---|---|---|---|
| **Determination of fair values** | | | |
| Trading assets | 3 054.0 | 233.8 | **3 287.8** |
| Derivative financial instruments | 50.0 | 2 663.1 | **2 713.1** |
| Financial assets designated at fair value | 937.1 | 69.0 | **1 006.1** |
| Financial investments available-for-sale | 576.1 | 13 309.0 | **13 885.1** |
| **Total assets at fair value** | **4 617.2** | **16 274.9** | **20 892.1** |
| Trading liabilities | 535.1 | 265.8 | **800.9** |
| Derivative financial instruments | 107.5 | 2 664.9 | **2 772.4** |
| Financial liabilities designated at fair value | 2 966.4 | 1 194.2 | **4 160.6** |
| **Total liabilities at fair value** | **3 609.0** | **4 124.9** | **7 733.9** |

| | Quoted market price Level 1 *CHF m* | Valuation technique market-observable inputs Level 2 *CHF m* | 31.12.2009 Total *CHF m* |
|---|---|---|---|
| Determination of fair values | | | |
| Trading assets | 2 087.0 | 268.4 | 2 355.4 |
| Derivative financial instruments | 46.8 | 1 812.5 | 1 859.3 |
| Financial assets designated at fair value | 963.6 | - | 963.6 |
| Financial investments available-for-sale | 563.1 | 14 448.4 | 15 011.5 |
| Total assets at fair value | 3 660.5 | 16 529.3 | 20 189.8 |
| Trading liabilities | 488.2 | 226.7 | 714.9 |
| Derivative financial instruments | 99.6 | 1 686.6 | 1 786.2 |
| Financial liabilities designated at fair value | 2 361.2 | 1 581.5 | 3 942.7 |
| Total liabilities at fair value | 2 949.0 | 3 494.8 | 6 443.8 |

**Changes in fair value recognised in profit and loss during the period that were estimated using valuation techniques**

Total results from trading operations came to CHF 332.3 million for the 2010 financial year (2009: CHF 298.5 million). This figure represents the net result from various products traded across different business activities, including the effect of foreign currency translation, and including both realised and unrealised income. Unrealised income is determined from changes in fair value, using quoted prices in active markets when available, and is otherwise estimated using valuation techniques.

Included in the unrealised portion of the results from trading operations are net losses from changes in fair values of CHF 131.8 million (2009: net gains CHF 247.9 million) on financial instruments whose fair value was estimated using valuation techniques. These valuation techniques included models such as those described above, which range from relatively simple models based on observable market factors, to more complex models based on assumptions or estimates reflecting market conditions.

The results from trading operations are frequently generated through transactions involving several financial instruments, or subject to hedging or other risk management techniques. This may result in different portions of the transactions being valued using different methods.

Consequently, the changes in fair value recognised in profit or loss during the reporting period that were estimated using valuation techniques represent only a portion of the results from trading operations. In many cases, these amounts were offset by other financial instruments or transactions that were realised or valued using quoted market prices or rates. The amount of such income for 2010, including the effect of foreign currency translation on unrealised transactions, was a gain of CHF 464.1 million (2009: CHF 50.6 million).

# 25 Companies consolidated as at 31 December 2010

## Listed company which is consolidated

| | Place of listing | Head Office | Currency | Share capital m | Capitalisation as at 31.12.10 m |
|---|---|---|---|---|---|
| Julius Baer Group Ltd. | SIX Swiss Exchange | Zurich | CHF | 4.1 | 9 050 |

Security number: 10 248 496, Bloomberg: BAER VX, Reuters: BAER.VX

## Unlisted companies which are consolidated

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Banks** | | | | |
| Bank Julius Baer & Co. Ltd. | Zurich | CHF | 575.000 | 100 |
| *Branches in Basle, Berne, Brig, Crans-Montana, Geneva, Guernsey,* | | | | |
| *Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore,* | | | | |
| *Sion, St. Gallen, St. Moritz, Verbier, Zug* | | | | |
| *Representative Offices in Abu Dhabi, Dubai, Istanbul,* | | | | |
| *Moscow, Santiago de Chile* | | | | |
| *including* | | | | |
| *Bank Julius Baer Nominees (Singapore) Pte. Ltd.* | *Singapore* | *SGD* | *0.000* | *100* |
| *Julius Baer (Singapore) Ltd.* | *Singapore* | *SGD* | *25.000* | *100* |
| *BJBJ (Jersey) Limited* | *Jersey* | *CHF* | *5.000* | *100* |
| *Arpese SA* | *Lugano* | *CHF* | *0.400* | *100* |
| *Julius Baer Wealth Management (Europe) SA* | *Luxembourg* | *CHF* | *0.200* | *100* |
| *including* | | | | |
| *- Julius Baer Patrimoine Conseil Sàrl* | *Paris* | *EUR* | *0.010* | *100* |
| *Ferrier Lullin Trust Management SA* | *Geneva* | *CHF* | *0.050* | *100* |
| | | | | |
| Bank Julius Bär Europe AG | Frankfurt | EUR | 15.000 | 100 |
| *Branches in Duesseldorf, Hamburg, Munich, Stuttgart* | | | | |
| *including* | | | | |
| *Julius Bär Capital GmbH* | *Frankfurt* | *EUR* | *0.024* | *100* |
| | | | | |
| Bank Julius Baer (Monaco) S.A.M. | Monaco | EUR | 30.000 | 100 |
| | | | | |
| Julius Baer Bank and Trust Company Ltd. | Grand Cayman | CHF | 20.000 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (Cayman) Ltd.* | *Grand Cayman* | *CHF* | *1.000* | *100* |
| *including* | | | | |
| *C.I. Directors Ltd.* | *Grand Cayman* | *USD* | *0.020* | *100* |

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Investment Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Life (Bahamas) Ltd.* | *Bahamas* | *USD* | *1.000* | *100* |
| *Julius Baer Consultores S.A.* | *Caracas* | *USD* | *0.800* | *100* |
| | | | | |
| Baer Alternative Solutions Limited | Guernsey | USD | 0.050 | 100 |
| | | | | |
| Julius Baer Family Office & Trust Ltd. | Zurich | CHF | 0.100 | 100 |
| *including* | | | | |
| *Julius Baer Trust Company (New Zealand) Limited* | *Auckland* | *CHF* | *0.005* | *100* |
| *Bronte International SA* | *BVI* | *USD* | *0.000* | *100* |
| *Cantrade Corporate Directors Ltd.* | *BVI* | *USD* | *0.000* | *100* |
| | | | | |
| Infidar Investment Advisory Ltd. | Zurich | CHF | 1.000 | 73 |
| *including* | | | | |
| *Infidar (Liechtenstein) AG* | *Vaduz* | *CHF* | *0.100* | *73* |
| | | | | |
| JB Swiss Capital Market Research Ltd. | Zurich | CHF | 0.100 | 100 |
| | | | | |
| Julius Baer (Hong Kong) Limited | Hong Kong | HKD | 273.894 | 100 |
| | | | | |
| Julius Baer (Middle East) Ltd. | Dubai | USD | 22.000 | 100 |
| *including* | | | | |
| *Julius Baer Advisory S.A.E.* | *Cairo* | *EGP* | *12.847* | *100* |
| | | | | |
| Julius Baer (Uruguay) S.A. | Montevideo | USD | 1.002 | 100 |
| | | | | |
| Julius Baer Capital (Guernsey) I Ltd. | Guernsey | CHF | 0.000 | 100 |
| | | | | |
| Julius Baer Consultores (Peru) S.A.C. | Lima | PEN | 3.000 | 100 |
| | | | | |
| Julius Baer Fiduciaria S.r.l. | Milan | EUR | 0.100 | 100 |

| | Head Office | Currency | Share capital m | Equity interest % |
|---|---|---|---|---|
| **Finance companies** | | | | |
| Julius Baer Financial Consultancy S.A. | Buenos Aires | USD | 0.493 | 100 |
| Julius Baer International Ltd. | London | GBP | 16.300 | 100 |
| Julius Baer International (Panama) Inc. | Panama | CHF | 1.387 | 100 |
| *including* | | | | |
| *Julius Baer Bank & Trust (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| *including* | | | | |
| *Julius Baer Trust Company (Bahamas) Ltd.* | *Bahamas* | *CHF* | *2.000* | *100* |
| Julius Baer Investment Advisory GesmbH | Vienna | EUR | 0.050 | 100 |
| Julius Bär Lizenzverwertungsgesellschaft AG | Zug | CHF | 0.100 | 100 |
| Julius Baer Società Di Intermediazione Mobiliare S.p.A. | Milan | EUR | 3.500 | 100 |
| *including* | | | | |
| *Representative Office in Rome* | | | | |
| Julius Baer Trust Company (Channel Islands) Ltd. | Guernsey | CHF | 0.100 | 100 |
| Julius Baer Wealth Management (Monaco) S.A.M. | Monaco | EUR | 0.465 | 100 |
| PT. Julius Baer Advisors (Indonesia) | Jakarta | USD | 0.197 | 100 |
| Ursa Company Ltd. | Grand Cayman | CHF | 0.500 | 100 |
| **Real estate company** | | | | |
| Aktiengesellschaft, formerly Waser Söhne & Cie., Werdmühle, Altstetten | Zurich | CHF | 2.260 | 100 |
| **Foundation** | | | | |
| Loteco Foundation | Zurich | CHF | 0.100 | 100 |

## Major changes in the companies consolidated:

- ING Bank (Switzerland) Ltd, Geneva, new and merged into Bank Julius Baer & Co. Ltd., Zurich
- Bank Julius Baer (Monaco) S.A.M., Monaco, new
- Julius Baer SIM (Società Di Intermediazione Mobiliare) S.p.A., Milan, merged into Alpha SIM S.p.A., Milan, and renamed into Julius Baer Società Di Intermediazione Mobiliare S.p.A., Milan

# 26 Acquisitions

On 28 September 2009, Julius Baer Group Ltd. acquired Alpha SIM S.p.A., Milan, for a purchase price of CHF 18.1 million in cash. At the time of acquisition, the assets under management amounted to CHF 607 million.

The assets and liabilities of the acquired entity were recorded as follows:

| | Book value *CHF 1000* | Step-up to fair value *CHF 1000* | Fair value *CHF 1000* |
|---|---|---|---|
| **Assets** | | | |
| Financial investments available-for-sale | 6 012 | - | 6 012 |
| Property and equipment | 164 | - | 164 |
| Goodwill | - | 9 134 | 9 134 |
| Intangible assets | 39 | 1 200 | 1 239 |
| All other assets | 2 624 | - | 2 624 |
| **Total** | 8 839 | 10 334 | 19 173 |

| | | | |
|---|---|---|---|
| **Liabilities and equity** | | | |
| All other liabilities | 1 066 | - | 1 066 |
| Total liabilities | 1 066 | - | 1 066 |
| Equity | 7 773 | 10 334 | 18 107 |
| **Total** | 8 839 | 10 334 | 19 173 |

The intangible assets recognised consist of CHF 1.2 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of five years.

On 15 January 2010, Julius Baer Group acquired ING Bank (Switzerland) Ltd, a fully owned subsidiary of ING Group NV, including its subsidiaries in Monaco and Jersey. The Group paid a total consideration of CHF 499.1 million in cash. The purchase price was fully funded by existing excess capital of the Group. ING Bank (Switzerland) Ltd, which was active in private banking business, has been fully integrated into Bank Julius Baer & Co. Ltd. At the time of acquisition, the assets under management amounted to CHF 13.5 billion.

The assets and liabilities of the acquired entity were recorded as follows:

| | Fair value *CHF 1000* |
|---|---|
| **Assets** | |
| Cash | 265 214 |
| Due from banks | 1 745 884 |
| Loans[1] | 1 185 488 |
| Financial investments available-for-sale | 349 989 |
| Customer relationships | 163 007 |
| Goodwill | 4 348 |
| Deferred tax assets | 3 313 |
| All other assets | 83 209 |
| **Total** | 3 800 452 |

| | |
|---|---|
| **Liabilities and equity** | |
| Due to banks | 1 118 446 |
| Due to customers | 2 053 444 |
| Deferred tax liabilities | 33 034 |
| All other liabilities | 96 457 |
| Total liabilities | 3 301 381 |
| Equity | 499 071 |
| **Total** | 3 800 452 |

[1]At the acquisition date, the gross contractual amount of loans acquired was CHF 1223.2 million.

The transaction resulted in goodwill of CHF 4.3 million, which represents expected synergies and growth opportunities from the combined private banking activities. Other intangible assets recognised consist of CHF 163.0 million for the existing customer relationships of the acquired entity, which are amortised over an expected useful life of ten years.

# 27 Share-based payments

**Equity-based incentives**

The Compensation Committee of the Board of Directors is responsible for determining and making changes to all of the equity-based incentives. The programmes described below reflect the plan landscape as at 31 December 2010. However, the two new plans (i.e. Premium Share Plan and Incentive Share Plan, see below) have not yet been implemented fully. The shares of Julius Baer Group Ltd. required for the equity-based incentives are procured from the market.

**Staff Participation Plan**
The Staff Participation Plan of the Julius Baer Group offers employees the opportunity to purchase shares of the Company at a discount. The discount is defined annually and may change from year to year. The shares acquired by the participants are blocked from sale for three years following purchase.

The objective of this plan is to strengthen the identification with the Group and its future development of employees on all levels of the organisation. The offer price for the 2010 Staff Participation Plan was 25% below the average weighted market value of the shares of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.

**Equity Bonus Plan**
Up to 2006, Senior Management had the possibility to choose to have part or all of their bonus paid out in the form of the former Julius Baer Holding Ltd. shares and/or options on such shares at market price. The shares and options acquired in this way are subject to a sales restriction period.

**Long-Term Incentive Plan**
The Long-Term Incentive Plan (LTI) of the Julius Baer Group is aimed at employees who have a significant influence on the Group's long-term development and financial results. The purpose of the LTI is to strengthen long-term commitment to the Group and to foster interdisciplinary teamwork required for the long-term success of the organisation as a whole. LTI is part of the total compensation of the Board of Directors and in some individual cases the LTI is used to compensate new hires for their lost long-term incentives forfeited by their previous employer due to resignation.

LTI participants are granted a number of shares which vest in equal one-third portions over a period of three years. The shares are transferred to the employees at vesting, subject to continued employment and any other conditions set out in the plan rules, and remain blocked from sale until the third anniversary of the grant. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares will be forfeited.

Until vesting, the granted shares are managed by the Loteco Foundation. The Loteco Foundation hedges its liabilities from the LTI on grant date through the purchase of the corresponding shares from the market.

**Equity-based incentives with a deferral component**

**Premium Share Plan**
The Premium Share Plan (PSP) is a deferred equity plan which applies to certain senior members of the staff and comprises between 19% and 47% of their total variable compensation. The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through the share price.

At the start of the plan period, a certain percentage of the employee's variable cash incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred cash element. These shares vest in equal one-third portions over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one third of the original grant.

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 Group or caused reputational damage.

No grants have yet been made from the PSP. The plan will be implemented from 2011 onwards.

**Incentive Share Plan**

The Incentive Share Plan (ISP) applies to the members of the Senior Management and some other key members of the staff. The ISP is designed to link part of the variable compensation of the executive directly to the long-term performance of the Company and part of the payment depends on achievement against two performance targets over a three-year period:

*Economic Profit,* which measures value creation of the Julius Baer Group against the strategic three-year plan of the Company over the three-year plan period.

*Relative Share Price,* which compares the performance of the Julius Baer Group share against the STOXX Europe 600 Banks Index.

The three-year performance period and the targets reflect the Group's underlying business cycle and its short- and long-term risk profile.

At the start of the plan period, 15% to 40% of the executive's 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 portions over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted a certain number of performance units which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period in the form of additional shares. The total number of vested additional shares can be between zero and two times the number of performance units (for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer) resp. zero to four times for members of the Senior Management and of the Executive Board of Bank Julius Baer. Including the value development of the performance units the ISP can represent between 15% and 67% (77% for members of Senior Management) of the total variable compensation of the executive.

Until vested, the units/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 Group or caused reputational damage.

The ISP has been applied to the members of the Senior Management and selected key staff as part of the variable compensation for 2010. The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.

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

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Staff Participation Plan** | | |
| Number of shares taken up | **347 994** | 520 382 |
| Preferential price per share (CHF) | **26.71** [1] | 17.20 [2] |
| Compensation expense (CHF 1000) | **3 097** | 2 982 |

[1]The preferential price was 25% below the weighted average market value of Julius Baer Group Ltd. for the period from 1 March until 12 March 2010.
[2]The preferential price was 25% below the weighted average market value of the former Julius Baer Holding Ltd. for the period from 2 March until 11 March 2009.

## Equity Bonus Plan

Bonuses paid in the form of shares are recognised in the year in which the corresponding service is performed. Bonuses paid in the form of options which can be cash-settled are also recognised in the year in which the service is performed, and until realisation (sale or exercise) these options are recognised in the balance sheet as a liability at fair value. The net compensation expense recognised for the financial year resulted again in an income due to favourable changes in the fair value of the liabilities and amounted to CHF 0.3 million (2009: CHF 1.5 million).

| | 31.12.2010 | 31.12.2009 |
|---|---|---|
| **Long-Term Incentive Plan** | | |
| Unvested shares outstanding, at the beginning of the year | **472 668** | 133 197 |
| Shares awarded during the year | **293 634** | 445 910 |
| Vested during the year | **-244 749** | -106 439 |
| Forfeited during the year | **-6 552** | - |
| Unvested shares outstanding, at the end of the year | **515 001** | 472 668 |
| Weighted average fair value per share awarded (CHF) | **34.12** | 39.50 |
| Fair value of outstanding shares at the end of the year (CHF 1000) | **22 557** | 17 196 |

Movements in options granted under various participation plans are as follows:

| | 31.12.2010 Number of options | 31.12.2010 Weighted average exercise price CHF | 31.12.2009 Number of options | 31.12.2009 Weighted average exercise price CHF |
|---|---|---|---|---|
| **Equity Bonus Plan** | | | | |
| Options outstanding, at the beginning of the year | **191 380** | **55.00** | 417 550 | 44.03 |
| Exercised during the year | **-191 380** | **55.00** | -226 170 | 34.75 |
| Options outstanding, at the end of the year | **-** | **-** | 191 380 | 55.00 |

| | 31.12.2010 Number of options | 31.12.2010 Weighted average exercise price CHF | 31.12.2009 Number of options | 31.12.2009 Weighted average exercise price CHF |
|---|---|---|---|---|
| **Long-Term Incentive Plan** | | | | |
| Options outstanding, at the beginning of the year | **479 196** | **91.20** | 1 342 827 | 85.93 |
| Vested/exercised during the year | **-479 196** | **91.20** | -837 679 | 82.75 |
| Forfeited during the year | **-** | **-** | -25 952 | 91.20 |
| Options outstanding, at the end of the year | **-** | **-** | 479 196 | 91.20 |

The compensation expense recognised for the Long-Term Incentive Plan amounted to CHF 17.6 million (2009: CHF 8.2 million).

# 28 Assets under management

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as 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 Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. 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 stated according to the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) governing financial statement reporting.

## Assets under management

| | 2010 CHF m | 2009 CHF m | Change % |
|---|---|---|---|
| Assets with discretionary mandate | **22 955** | 22 244 | 3.2 |
| Other assets under management | **146 715** | 131 358 | 11.7 |
| **Total assets under management (including double counting)** | **169 670** | 153 602 | 10.5 |
| *of which double counting* | ***2 851*** | *2 449* | *16.4* |
| Change through net new money | **8 753** | 5 106 | |
| Change through market and currency appreciation | **-6 195** | 18 800 | |
| Change through acquisition | **13 510** [2] | 607 [1] | |
| Client assets | **267 313** | 240 877 | 11.0 |

[1] On 30 September 2009, the Group acquired Alpha SIM S.p.A., Milan.
[2] On 15 January 2010, the Group acquired ING Bank (Switzerland) Ltd.

## Breakdown of assets under management

| | 2010 % | 2009 % |
|---|---|---|
| **By types of investment** | | |
| Equities | **26** | 22 |
| Bonds (including convertible bonds) | **28** | 30 |
| Money market instruments | **9** | 11 |
| Investment funds | **20** | 20 |
| Client deposits | **15** | 15 |
| Other | **2** | 2 |
| **Total** | **100** | 100 |

Client assets are defined as all bankable assets managed by or deposited with the Group companies for investment purposes and only those deposited assets held for transactional, safekeeping/custody or administrative purposes for which additional services, for example analysis and reporting or securities lending and borrowing, are provided. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes, assets primarily used for cash management, funding or trading purposes or deposited assets held purely for transactional or safekeeping/custody purposes are excluded from client assets.

# 29 Requirements of Swiss banking law

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Swiss-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 ruled by the principal provisions of the Banking Ordinance and the related Guidelines governing financial statement reporting.

The following main differences exist between IFRS and Swiss GAAP (true and fair view):

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. In addition, realised gains and losses on financial assets that are valued at amortised cost and that are sold or repaid prior to the final maturity are recorded immediately in the income statement. Under Swiss GAAP, such gains and losses are amortised to the stated maturity of the financial assets sold or prepaid.

Under IFRS, all income and expenses are attributed to ordinary business operations. Under Swiss GAAP, certain income and expenses are classified as extraordinary, e.g. if they are from non-operating transactions or are non-recurring.

Under IFRS, treasury shares are deducted from equity in the balance sheet. Gains or losses resulting from treasury shares are not recorded in the income statement but are directly set off against equity. Under Swiss GAAP, treasury shares not held for trading purposes are included in the position financial investments available-for-sale in the balance sheet and correspondingly separated into a reserve for treasury shares. Gains or losses resulting from the sale of treasury shares are recorded in the income statement.

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.

Under IFRS, intangible assets with indefinite lives are not amortised but tested for impairment on an annual basis. Under Swiss GAAP, such intangible assets are amortised over the useful lives up to a maximum of five years, and tested for impairment.

With the exception of the CHF 22.5 million of treasury shares deducted from equity in the consolidated financial statements in accordance with IFRS, these differences between the requirements of IFRS and Swiss GAAP are not material for the consolidated financial statements.

# 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 2010 financial year.

# Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

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Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of

**Julius Baer Group Ltd., Zurich**

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As statutory auditor, we have audited the accompanying consolidated financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes (pages 42 to 128) for the year ended 31 December 2010.

*Board of Directors' Responsibility*

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

KPMG

***Julius Baer Group Ltd., Zurich***
*Report of the Statutory Auditor*
*on the Consolidated 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 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

| | |
|---|---|
| Daniel Senn | Hans Stamm |
| *Licensed Audit Expert* | *Licensed Audit Expert* |
| *Auditor in Charge* | |

Zurich, 4 February 2011

## Julius Baer Group Ltd.

### *Statutory Financial Statements as at and for the years ended 31 December 2011 and 2010 (prepared in accordance with the Swiss Code of Obligations (Schweizerisches Obligationenrecht))*

# Income statement

| | 2011<br>CHF 1000 | 2010<br>CHF 1000 | Change<br>% |
|---|---|---|---|
| **Income** | | | |
| Interest income | **10 575** | 11 550 | -8.4 |
| Interest expense | **10 487** | 10 384 | 1.0 |
| Net interest income | **88** | 1 166 | -92.5 |
| | | | |
| Commission income on services | **1 190** | 615 | 93.5 |
| Commission expense | **124** | 83 | 49.4 |
| Results from commission and service fee activities | **1 066** | 532 | 100.4 |
| | | | |
| Income from participations | **170 956** | 166 526 | 2.7 |
| Other ordinary results | **62 440** | 67 604 | -7.6 |
| **Operating income** | **234 550** | 235 828 | -0.5 |
| | | | |
| **Expenses** | | | |
| Personnel expenses | **15 035** | 8 741 | 72.0 |
| General expenses | **16 545** | 12 054 | 37.3 |
| Operating expenses | **31 580** | 20 795 | 51.9 |
| **Gross profit** | **202 970** | 215 033 | -5.6 |
| | | | |
| Extraordinary expense | **790** | 6 830 | -88.4 |
| Taxes | **5 273** | 5 327 | -1.0 |
| **Net profit** | **196 907** | 202 876 | -2.9 |

# Balance sheet

| | 31.12.2011 CHF 1000 | 31.12.2010 CHF 1000 | Change CHF 1000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Due from banks | **589 502** | 624 269 | -34 767 |
| Other claims | **12 593** | 19 050 | -6 457 |
| Accrued income and prepaid expenses | **164 309** | 156 998 | 7 311 |
| Other assets | **3 548** | 4 347 | -799 |
| **Non-current assets** | | | |
| Participations | **3 199 161** | 3 099 727 | 99 434 |
| Other financial investments | **180 599** | 180 597 | 2 |
| Treasury shares | **253 719** | - | 253 719 |
| **Total assets** | **4 403 431** | 4 084 988 | 318 443 |
| Due from Group companies | **757 126** | 822 590 | -65 464 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Due to banks | **200 000** | 200 000 | - |
| Debt issued | **475 000** | 225 000 | 250 000 |
| Accrued expenses and deferred income | **22 144** | 23 603 | -1 459 |
| Other liabilities | **6 265** | 9 292 | -3 027 |
| **Equity** | | | |
| Share capital | **4 133** | 4 133 | - |
| Legal reserve | **2 434 449** | 827 | 2 433 622 |
| *of which general reserve* | ***827*** | *827* | - |
| *of which share premium reserve/capital contribution reserve* | ***2 433 622*** [1] | - | *2 433 622* |
| *including reserve for treasury shares* | ***253 719*** | - | *253 719* |
| Other reserves | **1 058 218** | 3 415 818 | -2 357 600 |
| *of which share premium* | **-** [1] | *2 557 601* | *-2 557 601* |
| Disposable profit | **203 222** | 206 315 | -3 093 |
| *of which retained earnings* | ***6 315*** | *3 439* | *2 876* |
| *of which net profit* | ***196 907*** | *202 876* | *-5 969* |
| **Total liabilities and equity** | **4 403 431** | 4 084 988 | 318 443 |
| Due to Group companies | **227 398** | 225 000 | 2 398 |

[1] The Swiss Federal Tax Administration approved the amount which qualifies as capital contribution reserve as at 31 December 2010.

# Notes

| | 31.12.2011<br>CHF 1000 | 31.12.2010<br>CHF 1000 | Change<br>CHF 1000 |
|---|---|---|---|
| **Contingent liabilities** | | | |
| Surety and guarantee obligations and assets pledged in favour of third parties | **1 392 717** | 884 401 | 508 316 |

**Participations**
Please see consolidated financial statements, pages 118 to 120. Participation income from subsidiaries is recorded based on an economic standpoint, i.e. at the same time that the corresponding income is recorded at the subsidiary.

**Treasury shares**
In the statutory financial statements of Julius Baer Group Ltd., a reserve for treasury shares, comprising all treasury shares held in the financial investments of Julius Baer Group and its subsidiaries, is stated in equity in accordance with the Swiss Code of Obligations.

As part of the share buyback programme, Julius Baer Group Ltd. bought 7 592 954 shares for an average price of CHF 33.40. These figures also correspond to the closing balance.

Compliant with the corresponding provisions of the Swiss Code of Obligations and the Banking Ordinance, the shares of Julius Baer Group Ltd. held in the trading portfolio of Bank Julius Baer & Co. Ltd. are not included in this reserve. These shares serve merely to hedge written options. The applicable conditions for purchasing treasury shares as a means of protecting shareholders' equity are not affected by this (barring the return of contributions of the Swiss Code of Obligations).

**Risk management**
Please see consolidated financial statements, page 62 ff.

**Lower tier 2 bond**
Please see consolidated financial statements, page 86ff. and page 102.

## Significant shareholders/participants

Based on notifications received by Julius Baer Group Ltd., each of the following shareholders/participants held more than 3% of the voting rights in Julius Baer Group Ltd. as at 31 December 2011: [1]

| Shareholder/participant[4] | Disclosure of purchase positions [2] | Disclosure of sale positions [3] |
|---|---|---|
| MFS Investment Management[5] | 10.02% | |
| Davis Selected Advisers L.P.[6] | 8.46% | |
| Harris Associates L.P.[7] | 5.02% | |
| BlackRock, Inc.[8] | 5.01% | 0.05% |
| Thornburg Investment Management[9] | 3.81% | |
| Julius Baer Group Ltd.[10] | 3.02% | 0.14% |

[1] 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.

[2] Equity securities, conversion and share purchase rights (art. 15 para. 1a SESTO-FINMA), granted (written) share sale rights (art. 15 para. 1b SESTO-FINMA) and financial instruments (art. 15 para. 1c and para. 2 SESTO-FINMA)

[3] 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)

[4] Please note that any change in the holding of voting rights between reportable thresholds does not trigger any notification duty.

[5] MFS Investment Management, Boston/USA (reported on 2 February 2011)

[6] Davis Selected Advisers L.P., Tucson/USA, as investment advisor (reported on 6 October 2009)

[7] Harris Associates L.P., Chicago/USA (reported on 13 May 2011)

[8] BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, USA (reported on 5 November 2010)

[9] Thornburg Investment Management, Santa Fe/USA, as investment manager on behalf of clients (reported on 1 October 2009)

[10] Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Bank Julius Baer & Co. Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, Loteco Stiftung, c/o Julius Baer Group Ltd., Bahnhofstrasse 36, 8001 Zurich/Switzerland, and Julius Baer Life (Bahamas) Ltd., Winterbotham Place, Marlborough and Queen Streets, 3026 Nassau/Bahamas (reported on 19 August 2011)

# Compensation, loans and share and option holdings of the Board of Directors and Senior Management

| Compensation of the members of the Board of Directors[1] | | Base salary *CHF* | Performance payment cash[4] *CHF* | Performance payment shares[4] *CHF* | Share-based payments[5] *CHF* | Pension fund contribution and varia *CHF* | **Total** *CHF* |
|---|---|---|---|---|---|---|---|
| Raymond J. Baer – Chairman[2] | **2011** | **1 160 000** | **900 000** | **-** | **430 596** | **111 013** | **2 601 609** |
| | 2010 | 1 200 000 | 1 000 000 | 300 000 | 404 244 | 112 508 | 3 016 752 |
| Peter Kuepfer – Independent Lead Director | **2011** | **159 600** | **-** | **-** | **103 662** | **8 666** | **271 928** |
| | 2010 | 162 000 | - | - | - | 8 616 | 170 616 |
| Heinrich Baumann (joined Board in 2011) | **2011** | **163 800** | **-** | **-** | **310 986** | **10 271** | **485 057** |
| | 2010 | n/a | - | - | - | n/a | n/a |
| Leonhard H. Fischer | **2011** | **142 800** | **-** | **-** | **-** | **8 551** | **151 351** |
| | 2010 | 153 000 | - | - | - | 8 226 | 161 226 |
| Claire Giraut | **2011** | **109 200** | **-** | **-** | **-** | **6 719** | **115 919** |
| | 2010 | 108 000 | - | - | 194 636 | 6 710 | 309 346 |
| Rolf P. Jetzer (passed away in 2010)[3] | **2011** | **-** | **-** | **-** | **-** | **-** | **-** |
| | 2010 | 137 000 | - | - | 291 954 | 15 532 | 444 486 |
| Gareth Penny[6] | **2011** | **100 800** | **-** | **-** | **-** | **26 251** | **127 051** |
| | 2010 | 108 000 | - | - | 291 954 | 5 744 | 405 698 |
| Daniel J. Sauter | **2011** | **159 600** | **-** | **-** | **-** | **9 772** | **169 372** |
| | 2010 | 162 000 | - | - | 291 954 | 8 616 | 462 570 |
| Charles G. T. Stonehill | **2011** | **126 000** | **-** | **-** | **310 986** | **7 545** | **444 531** |
| | 2010 | 135 000 | - | - | - | 7 194 | 142 194 |
| **Total** | **2011** | **2 121 800** | **900 000** | **-** | **1 156 230** | **188 788** | **4 366 818** |
| Total | 2010 | 2 165 000 | 1 000 000 | 300 000 | 1 474 742 | 173 146 | 5 112 888 |

[1] The members of the Board of Directors of Julius Baer Group Ltd. assume the similar director role in the Board of Directors of Bank Julius Baer & Co. Ltd.
In September 2011, the members of the Board of Directors decided to voluntarily reduce their cash compensation for the period September 2011 to April 2012 (eight months) by 10%, thereby following the Executive Boards of the Group and the Bank who had taken a similar decision. For all Board members (except for the Chairman) this pro rata reduction is entirely reflected in the base salary disclosure for 2011. The base salary for the Chairman disclosed for 2011 includes such reduction for four months only (i.e. September to December 2011); the 10% reduction on the remaining four months will be part of the 2012 compensation and disclosure.
In 2011, Claire Giraut, Heinrich Baumann, Peter Kuepfer and Daniel Sauter were engaged in additional ad hoc Board Committees on the Bank level. The remuneration for such Committee work is included in the disclosed base salary amount for 2011 and was also subject to the 10% pro rata reduction as described above.
For more information on the detailed compensation components of the Board of Directors please refer to the Corporate Governance section of the Annual Report 2011, page 32 ff.

[2] The Chairman has a full-time employment relationship.

[3] Rolf P. Jetzer unexpectedly passed away on 19 September 2010. His compensation for 2010, however, was not cut to a pro rata payment.

[4] The performance payment made to the Chairman in 2010 was split between a cash component of CHF 1.0 million and a share-based award in the form of unblocked shares of Julius Baer Group Ltd. in the amount of CHF 0.3 million (with fair value of the shares on 25 F ebruary 2011).
In 2011, the Chairman was awarded with a cash performance payment only in the amount of CHF 0.9 million.

[5] Share-based payments to members of the Board of Directors (excl. the Chairman) are made in the year of election and/or re-election and for the entire term (normally three years).
In 2011, Heinrich Baumann has been elected to the Board of Directors for a three-year term. In addition, Peter Kuepfer has been re-elected for a one-year term and Charles G.T. Stonehill for a three-year term.
The share-based payments are valued at fair value at the grant date (CHF 37.43 per share of Julius Baer Group Ltd. as at 1 May 2010; CHF 39.87 per share of Julius Baer Group Ltd. as at 4 May 2011).

[6] The amount disclosed for 2011 under Varia for Gareth Penny includes a payment of CHF 20 000 under a separate – but in the meantime terminated – consultancy agreement to assist and advise the Julius Baer Group in further developing emerging markets.

The value of the share-based payments cannot be compared with Note 28 Share-based payments of the Financial Statements Group 2011 as the latter discloses the compensation expense for the shares and/or options that have been recognised during the reporting periods.

The members of the Board of Directors are only entitled to the granted shares and/or options provided that they fulfil the entire term for which they have been elected or re-elected (forfeiture clause). The share award made to Rolf P. Jetzer based on his re-election at the Ordinary Annual General Meeting 2010 fully vested with his passing away in September 2010.

In 2011, no compensation has been granted to Board members that left the Board in 2010 or earlier.

No compensation has been granted to closely linked parties of members of the Board of Directors.

| | **31.12.2011** | | 31.12.2010 | |
|---|---|---|---|---|
| | Loans *CHF* | Loans to closely linked parties *CHF* | Loans *CHF* | Loans to closely linked parties *CHF* |
| **Loans to the members of the Board of Directors** | | | | |
| Raymond J. Baer – Chairman | **6 778 877** | - | 6 458 633 | - |
| Peter Kuepfer – Independent Lead Director | - | - | - | - |
| Heinrich Baumann (joined Board in 2011) | - | - | n/a | n/a |
| Leonhard H. Fischer | - | - | - | - |
| Claire Giraut | - | - | - | - |
| Gareth Penny | - | - | - | - |
| Daniel J. Sauter | **7 731 341** | **4 209 817** | 78 490 | 7 212 077 |
| Charles G. T. Stonehill | - | - | - | 12 505 |
| **Total** | **14 510 218** | **4 209 817** | 6 537 123 | 7 224 582 |

The loans granted to members of the Board of Directors consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the Lombard loans and the mortgage loans are in line with normal market rates at the time the loans were granted (no preferential conditions).

Members of the Board of Directors benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

No loans to former members of the Board of Directors (and their closely linked parties) are outstanding at year-end 2011 or have been granted in 2011 at conditions that were not at market rates.

| **Shareholdings of the members of the Board of Directors**[1] | | Number of shares |
|---|---|---|
| Raymond J. Baer – Chairman | **2011** | **1 328 882** |
| | 2010 | 1 310 800 |
| Peter Kuepfer – Independent Lead Director | **2011** | **91 520** |
| | 2010 | 88 920 |
| Heinrich Baumann (joined Board in 2011) | **2011** | **-** |
| | 2010 | n/a |
| Leonhard H. Fischer | **2011** | **5 200** |
| | 2010 | 2 600 |
| Claire Giraut | **2011** | **2 600** |
| | 2010 | - |
| Gareth Penny | **2011** | **10 400** |
| | 2010 | 7 800 |
| Daniel J. Sauter | **2011** | **34 120** |
| | 2010 | 31 520 |
| Charles G. T. Stonehill | **2011** | **13 000** |
| | 2010 | 10 400 |
| **Total** | **2011** | **1 485 722** |
| Total | 2010 | 1 452 040 |

[1] Including shareholdings of closely linked parties

None of the Board members held any option positions on Julius Baer Group Ltd. shares as at year-end 2011 and 2010.

| | | | Variable compensation | | | | |
|---|---|---|---|---|---|---|---|
| | | | | Deferred elements | | | |
| **Compensation of the members of the Senior Management** | | Base salary [1] *CHF* | Cash *CHF* | Shares *CHF* | Performance units *CHF* | Pension fund contribution and varia *CHF* | **Total** *CHF* |
| **Total**[2] | **2011** | **2 905 175** | **4 037 568** | **2 148 765** | **2 740 572** | **622 985** | **12 455 065** |
| Total[3] | 2010 | 2 959 053 | 5 389 559 | 3 160 441 | 3 768 310 | 639 994 | 15 917 357 |

[1]In September 2011, the members of the Executive Boards of the Group and the Bank decided to voluntarily reduce their base salary for the period September 2011 to June 2012 (ten months) by 5-10%. The disclosed base salary 2011 of the members of the Senior Management includes such reduction for four months. The reduction on the remaining six months (i.e. January to June 2012) will be part of the 2012 compensation and disclosure.

[2]The variable compensation for the members of the Senior Management for the 2011 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2011, the members of the Senior Management were granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 2.15 million (grant date of ISP 15 February 2012). In addition to the deferred shares, the members of the Senior Management were granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of a three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2011, the members of the Senior Management (except the CEO) were awarded with the same number of performance units as the number of deferred shares. The fair value of a performance unit is 1.78 times the value determined for a Julius Baer Group deferred share, i.e. amounting to a total value of CHF 2.74 million under 'performance units'.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 31.5% for Julius Baer Group shares and 32.0% for the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.0% and 1.0% for CHF and EUR, respectively.

The Compensation Committee decided on 23 January 2012 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2011.

For the reporting period 2011, the split between the base salary and the variable compensation of the members of the Senior Management was 24.6% : 75.4%. 54.8% of the variable compensation of the members of the Senior Management in the reporting period was deferred for a period of three years.

[3]The variable compensation for the members of the Senior Management for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the members of the Senior Management were granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 3.16 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the members of the Senior Management were granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2010, the members of the Senior Management (except the CEO) were awarded with the same number of performance units as the number of deferred shares. The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share, i.e. amounting to a total value of CHF 3.77 million under 'performance units'.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR, respectively.

The Compensation Committee decided on 25 January 2011 on the participants of the ISP and on the individual allocations as part of the variable compensation for 2010.

For the reporting period 2010, the split between the base salary and the variable compensation of the members of the Senior Management was 19.4% : 80.6%. 56.2% of the variable compensation of the members of the Senior Management in the reporting period was deferred for a period of three years.

In 2011, no compensation has been paid to former members of the Senior Management who left the Senior Management in 2011 or earlier that related to such members' prior function within the Senior Management.

No compensation has been granted to closely linked parties of members of the Senior Management or former members of the Senior Management.

Neither sign-on payments nor severance payments to members of the Senior Management were made in 2010 and 2011.

| **Details of the compensation of the highest-paid member of the Senior or former Senior Management** | | | Variable compensation | Deferred elements | | | |
|---|---|---|---|---|---|---|---|
| | | Base salary [1] *CHF* | Cash *CHF* | Shares *CHF* | Performance units *CHF* | Pension fund contribution and varia *CHF* | **Total** *CHF* |
| **Boris F.J. Collardi, CEO[2]** | **2011** | **943 467** | **2 000 000** | **1 333 333** | **1 289 067** | **103 397** | **5 669 264** |
| Boris F.J. Collardi, CEO[3] | 2010 | 955 167 | 3 000 000 | 2 000 000 | 1 900 000 | 93 138 | 7 948 305 |

[1] In September 2011, the CEO decided to voluntarily reduce his base salary for the period September 2011 to June 2012 (ten months) by 10%. The disclosed base salary 2011 of the CEO includes such reduction for four months. The reduction on the remaining six months (i.e. January to June 2012) will be part of the 2012 compensation and disclosure.

[2] Analogous to the other members of the Senior Management, the variable compensation for the CEO for the 2011 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2011, the CEO was granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 1.33 million (grant date of ISP 15 February 2012). In addition to the deferred shares, the CEO was granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2011, the CEO was awarded with a number of performance units at fair value at grant date equal in value to the amount shown under 'performance units', i.e. CHF 1.29 million (grant date of ISP 15 February 2012). The fair value of a performance unit is 1.78 times the value determined for a Julius Baer Group deferred share.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 31.5% for Julius Baer Group shares and 32.0% for the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.0% and 1.0% for CHF and EUR, respectively.

The Compensation Committee decided on 23 January 2012 on the ISP allocation to the CEO as part of the variable compensation for 2011.

For the reporting period 2011, the split between the base salary and the variable compensation of the CEO was 17% : 83%. 56.7% of the variable compensation of the CEO for the reporting period was deferred for a period of three years.

[3] Analogous to the other members of the Senior Management, the variable compensation for the CEO for the 2010 financial year was composed of an unrestricted cash component and an equity-based incentive (awards of shares and performance units under the Incentive Share Plan [ISP]). For the reporting period 2010, the CEO was granted a number of shares at fair value at grant date equal in value to the deferred amount shown under 'deferred shares', i.e. CHF 2 million (grant date of ISP 15 February 2011). In addition to the deferred shares, the CEO was granted a performance unit award (shown under 'performance units'). Subject to the achievement of predefined targets and continued employment such performance units cliff-vest in the form of Julius Baer Group shares at the end of the three-year period. The total number of vested performance shares at the end of the performance period can be between zero and four times the number of initially granted performance units. The two performance targets evaluated over the three-year period are described in the Corporate Governance section of the Annual Report.

For the reporting period 2010, the CEO was awarded with a number of performance units at fair value at grant date equal in value to the amount shown under 'performance units', i.e. CHF 1.9 million (grant date of ISP 15 February 2011). The fair value of a performance unit is 1.61 times the value determined for a Julius Baer Group deferred share.

The fair value of the performance unit was based on a valuation of (i) the economic profit component using a probabilistic model regarding the potential deviation of the future Group results from its strategic three-year plan, and of (ii) the relative share price component applying a standard option pricing model using an expected volatility of 30% for both Julius Baer Group shares and the STOXX Europe 600 Banks Index, assumed average Julius Baer Group dividend cash flows derived from the Group's strategic three-year plan, and an expected risk-free rate of 0.7% and 1.5% for CHF and EUR, respectively.

The Compensation Committee decided on 25 January 2011 on the ISP allocation to the CEO as part of the variable compensation for 2010.

For the reporting period 2010, the split between the base salary and the variable compensation of the CEO was 12.2% : 87.8%. 56.5% of the variable compensation of the CEO for the reporting period was deferred for a period of three years.

| | **31.12.2011** | | 31.12.2010 | |
|---|---|---|---|---|
| | Loans *CHF* | Loans to closely linked parties *CHF* | Loans *CHF* | Loans to closely linked parties *CHF* |
| **Loans to the members of the Senior Management** | | | | |
| **Total** | **5 773 562** | **466 189** | 5 876 235 | - |
| *of which the highest amount: Boris F.J. Collardi* | ***4 052 886*** | - | *3 510 880* | - |

The loans granted to the members of the Senior Management consist of Lombard loans on a secured basis (through pledging of securities portfolios or other marketable coverage), fixed rate mortgages (on a fixed rate basis) as well as Libor mortgages and floating rate mortgages (both on a variable rate basis).

The interest rates of the Lombard loans are in line with normal market rates at the time the loans were granted. Mortgage loans to employees and Senior Management members of the Group are granted at a discount of 1% for floating rate mortgage loans, whereas fixed rate mortgage loans are granted at refinancing rate plus 0.25% and Libor mortgage loans at refinancing rate plus 0.5%.

No loans to former members of the Senior Management (and their closely linked parties) are outstanding at year-end 2011 or have been granted in 2011 at conditions that were not at market.

Members of the Senior Management benefit from preferential staff conditions for transactions (e.g. in securities) executed in-house.

| **Shareholdings of the members of the Senior Management**[1] | | Number of shares |
|---|---|---|
| Boris F.J. Collardi, Chief Executive Officer | **2011** | **69 918** |
| | 2010 | 43 054 |
| Dieter A. Enkelmann, Chief Financial Officer | **2011** | **73 533** |
| | 2010 | 74 654 |
| Jan A. Bielinski, Chief Communications Officer | **2011** | **33 812** |
| | 2010 | 29 005 |
| Christoph Hiestand, General Counsel | **2011** | **4 807** |
| | 2010 | 2 404 |
| Bernhard Hodler, Chief Risk Officer | **2011** | **17 017** |
| | 2010 | 15 977 |
| Bernard Keller, Private Banking Representative | **2011** | **17 241** |
| | 2010 | 8 830 |
| **Total** | **2011** | **216 328** |
| Total | 2010 | 173 924 |

[1] Including shareholdings of closely linked parties

None of the members of the Senior Management held any option positions on Julius Baer Group Ltd. shares as at year-end 2011 and 2010.

# Proposal of the Board of Directors to the Ordinary Annual General Meeting on 11 April 2012

The Board of Directors proposes to the Ordinary Annual General Meeting that the disposable profit for the 2011 financial year of CHF 203 221 872, consisting of net profit for the financial year in the amount of CHF 196 906 894 plus CHF 6 314 978 of retained earnings brought forward from the prior financial year, be distributed as follows:

- Allocation to other reserves:
  CHF 200 000 000
- Balance brought forward:
  CHF 3 221 872

- Dividend of CHF 0.60
  per share at CHF 0.02 par value
- Special dividend of CHF 0.40
  per share at CHF 0.02 par value
- Total dividends on the 199 037 802 shares
  entitled to dividends:
  CHF 199 037 802
  Total distribution, fully charged to share premium reserve/capital contribution reserve

# Dividends

| | Gross<br>*CHF* | 35% withholding tax<br>*CHF* | Net<br>*CHF* |
|---|---|---|---|
| **On approval of this proposal, the dividends amount to:** | | | |
| Dividend per share | 0.60 | - | 0.60 |
| Special dividend per share | 0.40 | - | 0.40 |

The dividends will be paid from 18 April 2012.

On behalf of the Board of Directors

The Chairman

Raymond J. Baer

# Report of the Statutory Auditor to the Ordinary Annual General Meeting of Julius Baer Group Ltd., Zurich

KPMG

**KPMG AG**
**Audit Financial Services**
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Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

**Julius Baer Group Ltd., Zurich**

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As statutory auditor, we have audited the accompanying financial statements of Julius Baer Group Ltd., which comprise the balance sheet, income statement and notes (pages 136 to 148) for the year ended 31 December 2011.

*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 2011 comply with Swiss law and the company's articles of incorporation.

KPMG

***Julius Baer Group 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

Daniel Senn
*Licensed Audit Expert*
*Auditor in Charge*

Hans Stamm
*Licensed Audit Expert*

Zurich, 3 February 2012

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## Julius Baer Group Ltd.

### *Condensed Interim Consolidated Financial Statements as at and for the six months ended 30 June 2012 and 2011 (unaudited) (prepared in accordance with IAS34)*

# Consolidated income statement

| | Note | **H1 2012** CHF m | H1 2011 CHF m | H2 2011 CHF m | *Change to H1 2011 in %* |
|---|---|---|---|---|---|
| Interest income | | **368.2** | 350.8 | 285.8 | 5.0 |
| Interest expense | | **45.5** | 34.5 | 69.5 | 31.9 |
| Net interest income | 1 | **322.7** | 316.3 | 216.3 | 2.0 |
| Fee and commission income | | **566.5** | 601.0 | 536.3 | -5.7 |
| Commission expense | | **95.9** | 104.8 | 90.6 | -8.5 |
| Net fee and commission income | 2 | **470.7** | 496.3 | 445.7 | -5.2 |
| Net trading income | 3 | **52.2** | 86.0 | 182.7 | -39.3 |
| Other ordinary results | | **17.5** | -0.7 | 10.1 | - |
| **Operating income** | | **863.1** | 897.8 | 854.9 | -3.9 |
| Personnel expenses | 4 | **404.3** | 413.3 | 398.6 | -2.2 |
| General expenses | 5 | **160.8** | 228.2 | 216.1 | -29.5 |
| Depreciation of property and equipment | | **14.9** | 14.5 | 15.8 | 2.8 |
| Amortisation of customer relationships | | **45.7** | 45.6 | 46.4 | 0.2 |
| Amortisation of other intangible assets | | **16.8** | 15.3 | 40.0 | 9.8 |
| **Operating expenses** | | **642.5** | 717.0 | 716.9 | -10.4 |
| **Profit before taxes** | | **220.6** | 180.9 | 137.9 | 21.9 |
| Income taxes | | **44.9** | 33.5 | 27.2 | 34.0 |
| **Net profit** | | **175.7** | 147.4 | 110.8 | 19.2 |

| | **H1 2012** CHF m | H1 2011 CHF m | H2 2011 CHF m | *Change to H1 2011 in %* |
|---|---|---|---|---|
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | **175.5** | 147.3 | 110.7 | 19.1 |
| Non-controlling interests | **0.2** | 0.1 | 0.1 | - |
| | **175.7** | 147.4 | 110.8 | 19.2 |

| | **H1 2012** CHF | H1 2011 CHF | H2 2011 CHF | *Change to H1 2011 in %* |
|---|---|---|---|---|
| **Share information** | | | | |
| Basic net profit per registered share | **0.9** | 0.7 | 0.5 | 25.7 |
| Diluted net profit per registered share | **0.9** | 0.7 | 0.5 | 25.6 |

# Consolidated statement of comprehensive income

| | H1 2012<br>CHF m | H1 2011<br>CHF m | H2 2011<br>CHF m | Change<br>to H1 2011 in % |
|---|---|---|---|---|
| **Net profit recognised in the income statement** | **175.7** | 147.4 | 110.8 | 19.2 |
| | | | | |
| Other comprehensive income (net of taxes): | | | | |
| Net unrealised gains/(losses) on financial investments available-for-sale | **62.4** | -7.2 | -28.9 | |
| Net realised (gains)/losses reclassified to the income statement on financial investments available-for-sale | **10.2** | 16.7 | 2.3 | |
| Hedging reserve for cash flow hedges | **-2.1** | -0.8 | -4.4 | |
| Translation differences | **-3.2** | -11.5 | 5.4 | |
| **Other comprehensive income for the period recognised directly in equity** | **67.3** | -2.8 | -25.5 | |
| | | | | |
| **Total comprehensive income for the period recognised in the income statement and in equity** | **243.0** | 144.6 | 85.2 | |
| | | | | |
| Attributable to: | | | | |
| Shareholders of Julius Baer Group Ltd. | **242.8** | 144.5 | 85.1 | |
| Non-controlling interests | **0.2** | 0.1 | 0.1 | |
| | **243.0** | 144.6 | 85.2 | |

# Consolidated balance sheet

| | Note | **30.06.2012** CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m | Change to 31.12.11 in % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash | | **5 658.7** | 262.8 | 4 241.5 | 33.4 |
| Due from banks | 6 | **8 946.9** | 7 462.0 | 10 048.1 | -11.0 |
| Loans | 6 | **18 044.3** | 16 268.5 | 16 408.4 | 10.0 |
| Trading assets | | **3 771.2** | 3 199.1 | 4 920.2 | -23.4 |
| Derivative financial instruments | | **1 519.1** | 1 973.3 | 2 114.0 | -28.1 |
| Financial assets designated at fair value | | **-** | 1 001.9 | - | - |
| Financial investments available-for-sale | 7 | **13 230.5** | 14 484.1 | 12 168.0 | 8.7 |
| Investments in associates | | **45.7** | 51.0 | 48.5 | -5.8 |
| Property and equipment | | **361.0** | 362.4 | 366.1 | -1.4 |
| Goodwill and other intangible assets | | **1 671.0** | 1 767.4 | 1 706.9 | -2.1 |
| Accrued income and prepaid expenses | | **223.1** | 174.3 | 192.1 | 16.1 |
| Deferred tax assets | | **14.0** | 11.6 | 12.4 | 12.9 |
| Other assets | | **170.8** | 453.1 | 136.7 | 24.9 |
| Assets held for sale | | **546.5** | - | 565.8 | -3.4 |
| **Total assets** | | **54 202.8** | 47 471.5 | 52 928.7 | 2.4 |

| | 30.06.2012 CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m | Change to 31.12.11 in % |
|---|---|---|---|---|
| **Liabilities and equity** | | | | |
| Due to banks | **4 748.2** | 5 108.8 | 5 670.2 | -16.3 |
| Due to customers | **37 736.6** | 30 016.1 | 34 841.2 | 8.3 |
| Trading liabilities | **585.2** | 934.8 | 814.1 | -28.1 |
| Derivative financial instruments | **1 442.4** | 1 877.2 | 2 116.0 | -31.8 |
| Financial liabilities designated at fair value | **3 849.8** | 4 362.4 | 3 494.6 | 10.2 |
| Debt issued | **492.9** | 236.9 | 475.8 | 3.6 |
| Accrued expenses and deferred income | **247.3** | 246.9 | 322.8 | -23.4 |
| Current tax liabilities | **10.5** | 42.4 | 19.7 | -46.7 |
| Deferred tax liabilities | **119.2** | 116.9 | 117.2 | 1.7 |
| Provisions | **38.9** | 26.2 | 54.1 | -28.1 |
| Other liabilities | **181.4** | 107.4 | 127.4 | 42.4 |
| Liabilities held for sale | **546.3** | - | 565.4 | -3.4 |
| Total liabilities | **49 998.7** | 43 076.0 | 48 618.4 | 2.8 |
| Share capital | **3.9** | 4.1 | 4.1 | -5.0 |
| Retained earnings | **4 352.7** | 4 607.9 | 4 717.2 | -7.7 |
| Other components of equity | **-42.8** | -84.6 | -110.1 | 61.1 |
| Treasury shares | **-111.6** | -133.7 | -302.9 | 63.2 |
| Equity attributable to shareholders of Julius Baer Group Ltd. | **4 202.2** | 4 393.7 | 4 308.3 | -2.5 |
| Non-controlling interests | **1.9** | 1.8 | 1.9 | - |
| Total equity | **4 204.1** | 4 395.5 | 4 310.2 | -2.5 |
| **Total liabilities and equity** | **54 202.8** | 47 471.5 | 52 928.7 | 2.4 |

# Consolidated statement of changes in equity

| | Share capital *CHF m* | Retained earnings [1] *CHF m* |
|---|---|---|
| At 1 January 2011 | 4.1 | 4 581.9 |
| Net profit | - | 147.3 |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Total other comprehensive income | - | - |
| Total comprehensive income | - | 147.3 |
| Dividends | - | -124.0 |
| Dividend income on own shares | - | 0.9 |
| Share-based payments expensed for the year | - | 10.0 |
| Share-based payments vested | - | -4.7 |
| Changes in derivatives on own shares | - | 2.4 |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | -6.0 |
| At 30 June 2011 | 4.1 | 4 607.9 |
| At 1 July 2011 | 4.1 | 4 607.9 |
| Net profit | - | 110.7 |
| Unrealised gains/(losses) | - | - |
| Realised (gains)/losses reclassified to the income statement | - | - |
| Changes | - | - |
| Total other comprehensive income | - | - |
| Total comprehensive income | - | 110.7 |
| Share-based payments expensed for the year | - | 9.3 |
| Share-based payments vested | - | -7.4 |
| Changes in derivatives on own shares | - | -3.6 |
| Acquisitions of own shares | - | - |
| Disposals of own shares | - | 0.4 |
| At 31 December 2011 | 4.1 | 4 717.2 |
| **At 1 January 2012** | **4.1** | **4 717.2** |
| Net profit | **-** | **175.5** |
| Unrealised gains/(losses) | **-** | **-** |
| Realised (gains)/losses reclassified to the income statement | **-** | **-** |
| Changes | **-** | **-** |
| Total other comprehensive income | **-** | **-** |
| Total comprehensive income | **-** | **175.5** |
| Capital reduction | **-0.2** | **-352.1** |
| Dividends | **-** | **-196.4** |
| Dividend income on own shares | **-** | **2.5** |
| Share-based payments expensed for the year | **-** | **15.4** |
| Share-based payments vested | **-** | **-8.6** |
| Changes in derivatives on own shares | **-** | **1.8** |
| Acquisitions of own shares | **-** | **-** |
| Disposals of own shares | **-** | **-2.6** |
| **At 30 June 2012** | **3.9** | **4 352.7** |

[1] Retained earnings include the capital reserves of Bank Julius Baer & Co. Ltd. and the share premium reserve/capital contribution reserve of Julius Baer Group Ltd.

| Other components of equity | | | | | | |
|---|---|---|---|---|---|---|
| Financial investments available-for-sale, net of taxes *CHF m* | Hedging reserve for cash flow hedges, net of taxes *CHF m* | Translation differences *CHF m* | Treasury shares *CHF m* | Equity attributable to shareholders of Julius Baer Group Ltd. *CHF m* | Non-controlling interests *CHF m* | **Total equity** *CHF m* |
| -34.4 | -0.1 | -47.3 | -22.5 | 4 481.8 | 2.2 | 4 484.0 |
| - | - | - | - | 147.3 | 0.1 | 147.4 |
| -7.2 | -0.8 | - | - | -8.0 | - | -8.0 |
| 16.7 | - | - | - | 16.7 | - | 16.7 |
| - | - | -11.5 | - | -11.5 | - | -11.5 |
| 9.5 | -0.8 | -11.5 | - | -2.8 | - | -2.8 |
| 9.5 | -0.8 | -11.5 | - | 144.5 | 0.1 | 144.6 |
| - | - | - | - | -124.0 | -0.5 | -124.5 |
| - | - | - | - | 0.9 | - | 0.9 |
| - | - | - | - | 10.0 | - | 10.0 |
| - | - | - | 4.7 | - | - | - |
| - | - | - | -1.0 | 1.4 | - | 1.4 |
| - | - | - | -257.3 | -257.3 | - | -257.3 |
| - | - | - | 142.4 | 136.4 | - | 136.4 |
| -24.8 | -0.9 | -58.9 | -133.7 | 4 393.7 | 1.8 | 4 395.5 |
| -24.8 | -0.9 | -58.9 | -133.7 | 4 393.7 | 1.8 | 4 395.5 |
| - | - | - | - | 110.7 | 0.1 | 110.8 |
| -28.9 | -4.4 | - | - | -33.3 | - | -33.3 |
| 2.3 | - | - | - | 2.3 | - | 2.3 |
| - | - | 5.4 | - | 5.4 | - | 5.4 |
| -26.6 | -4.4 | 5.4 | - | -25.6 | - | -25.6 |
| -26.6 | -4.4 | 5.4 | - | 85.1 | 0.1 | 85.2 |
| - | - | - | - | 9.3 | - | 9.3 |
| - | - | - | 7.4 | - | - | - |
| - | - | - | 4.5 | 0.9 | - | 0.9 |
| - | - | - | -211.5 | -211.5 | - | -211.5 |
| - | - | - | 30.4 | 30.8 | - | 30.8 |
| -51.4 | -5.3 | -53.4 | -302.9 | 4 308.3 | 1.9 | 4 310.2 |
| **-51.4** | **-5.3** | **-53.4** | **-302.9** | **4 308.3** | **1.9** | **4 310.2** |
| **-** | **-** | **-** | **-** | **175.5** | **0.2** | **175.7** |
| **62.4** | **-2.1** | **-** | **-** | **60.3** | **-** | **60.3** |
| **10.2** | **-** | **-** | **-** | **10.2** | **-** | **10.2** |
| **-** | **-** | **-3.2** | **-** | **-3.2** | **-** | **-3.2** |
| **72.6** | **-2.1** | **-3.2** | **-** | **67.3** | **-** | **67.3** |
| **72.6** | **-2.1** | **-3.2** | **-** | **242.8** | **0.2** | **243.0** |
| **-** | **-** | **-** | **352.3** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-** | **-196.4** | **-0.2** | **-196.6** |
| **-** | **-** | **-** | **-** | **2.5** | **-** | **2.5** |
| **-** | **-** | **-** | **-** | **15.4** | **-** | **15.4** |
| **-** | **-** | **-** | **8.6** | **-** | **-** | **-** |
| **-** | **-** | **-** | **-40.7** | **-38.9** | **-** | **-38.9** |
| **-** | **-** | **-** | **-312.0** | **-312.0** | **-** | **-312.0** |
| **-** | **-** | **-** | **183.1** | **180.5** | **-** | **180.5** |
| **21.2** | **-7.4** | **-56.6** | **-111.6** | **4 202.2** | **1.9** | **4 204.1** |

# Consolidated statement of cash flows (condensed)

| | **H1 2012** CHF m | H1 2011 CHF m | H2 2011 CHF m |
|---|---|---|---|
| Cash and cash equivalents at the beginning of the period | **17 317.3** | 13 263.1 | 13 355.5 |
| Cash flow from operating activities after taxes | **1 478.4** | 799.4 | 4 158.3 |
| Cash flow from investing activities | **-1 942.7** | -874.6 | -251.9 |
| Cash flow from financing activities | **7.8** | -43.8 | 193.1 |
| Effects of exchange rate changes | **-1.2** | 211.4 | -137.7 |
| **Cash and cash equivalents at the end of the period** | **16 859.6** | 13 355.5 | 17 317.3 |

# Condensed accounting policies and valuation principles

This unaudited interim report was produced in accordance with International Accounting Standard 34.

The condensed consolidated half-year financial statements of the Group as at, and for the six month ended, 30 June 2012 comprise of Julius Baer Group Ltd. and its subsidiaries. They were prepared on the basis of the accounting policies and valuation principles of the consolidated financial statements of Julius Baer Group Ltd. as of 31 December 2011 with the exception of the recently adopted accounting pronouncements.

Starting 1 January 2012, the following new or revised accounting standards are in force or have been early applied and are relevant to the Group:

– Disclosures – Transfer of Financial Assets (Amendments to IFRS 7)

The adoption of this amendment had no significant impact on the interim reporting.

**Events after the balance sheet date**

The Audit Committee of the Board of Directors, together with representatives of the Group Executive Board, approved the half-year condensed consolidated financial statements at its meeting on 20 July 2012. There were no significant events to report until this date.

| | Exchange rates as at | | | Average exchange rates | | |
|---|---|---|---|---|---|---|
| | **30.06.2012** | 30.06.2011 | 31.12.2011 | **H1 2012** | H1 2011 | 2011 |
| USD/CHF | **0.9465** | 0.8420 | 0.9351 | **0.9250** | 0.8910 | 0.8805 |
| EUR/CHF | **1.2012** | 1.2208 | 1.2139 | **1.2030** | 1.2680 | 1.2310 |
| GBP/CHF | **1.4846** | 1.3519 | 1.4533 | **1.4650** | 1.4480 | 1.4170 |

# Information on the consolidated income statement

## 1 Net interest income

| | **H1 2012** CHF m | H1 2011 CHF m | H2 2011 CHF m | Change to H1 2011 in % |
|---|---|---|---|---|
| Interest income on amounts due from banks | **16.2** | 16.3 | 22.8 | -0.6 |
| Interest income on loans | **143.3** | 129.6 | 146.5 | 10.6 |
| Interest income on money market instruments | **9.2** | 20.8 | 17.9 | -55.8 |
| Interest income on financial investments available-for-sale | **79.7** | 63.7 | 70.5 | 25.1 |
| Dividend income on financial investments available-for-sale | **2.8** | 2.2 | - | 27.3 |
| Interest income on trading portfolios | **26.5** | 21.5 | 23.7 | 23.3 |
| Dividend income on trading portfolios | **90.5** | 96.8 | 4.5 | -6.5 |
| Total interest income | **368.2** | 350.8 | 285.8 | 5.0 |
| Interest expense on amounts due to banks | **2.2** | 4.9 | 3.9 | -55.1 |
| Interest expense on amounts due to customers | **33.6** | 25.6 | 61.2 | 31.3 |
| Interest expense on debt issued | **9.6** | 4.1 | 4.3 | 134.1 |
| Total interest expense | **45.5** | 34.5 | 69.5 | 31.9 |
| **Total** | **322.7** | 316.3 | 216.3 | 2.0 |

## 2 Net fee and commission income

| | **H1 2012** CHF m | H1 2011 CHF m | H2 2011 CHF m | Change to H1 2011 in % |
|---|---|---|---|---|
| Investment fund fees | **53.5** | 58.7 | 49.6 | -8.9 |
| Fiduciary commissions | **6.8** | 9.3 | 9.8 | -26.9 |
| Portfolio and other management fees | **306.2** | 307.3 | 297.6 | -0.4 |
| Total fee and commission income from asset management | **366.5** | 375.3 | 357.0 | -2.3 |
| Income from brokerage and securities underwriting | **174.5** | 199.3 | 154.7 | -12.4 |
| Commission income on lending activities | **2.9** | 2.6 | 2.0 | 11.5 |
| Commission income on other services | **22.6** | 23.9 | 22.6 | -5.4 |
| Total fee and commission income | **566.5** | 601.0 | 536.3 | -5.7 |
| Commission expense | **95.9** | 104.8 | 90.6 | -8.5 |
| **Total** | **470.7** | 496.3 | 445.7 | -5.2 |

# 3 Net trading income

| | **H1 2012** *CHF m* | H1 2011 *CHF m* | H2 2011 *CHF m* | *Change to H1 2011 in %* |
|---|---|---|---|---|
| Debt instruments | **2.5** | 7.7 | 8.2 | -67.5 |
| Equity instruments | **-82.6** | -85.6 | -11.2 | -3.5 |
| Foreign exchange | **132.2** | 163.9 | 185.6 | -19.3 |
| **Total** | **52.2** | 86.0 | 182.7 | -39.3 |

# 4 Personnel expenses

| | **H1 2012** *CHF m* | H1 2011 *CHF m* | H2 2011 *CHF m* | *Change to H1 2011 in %* |
|---|---|---|---|---|
| Salaries and bonuses | **323.5** | 334.9 | 314.1 | -3.4 |
| Contributions to staff pension plans | **33.0** | 30.7 | 22.3 | 7.5 |
| Other social security contributions | **27.9** | 27.7 | 23.9 | 0.7 |
| Share-based payments | **15.4** | 13.5 | 9.4 | 14.1 |
| Other personnel expenses | **4.5** | 6.5 | 29.0 | -30.8 |
| **Total** | **404.3** | 413.3 | 398.6 | -2.2 |

# 5 General expenses

| | **H1 2012** *CHF m* | H1 2011 *CHF m* | H2 2011 *CHF m* | *Change to H1 2011 in %* |
|---|---|---|---|---|
| Occupancy expense | **26.5** | 25.9 | 26.9 | 2.3 |
| IT and other equipment expense | **24.7** | 26.2 | 23.8 | -5.7 |
| Information, communication and advertising expense | **57.9** | 53.2 | 57.9 | 8.8 |
| Service expense, fees and taxes | **61.3** | 61.2 | 65.0 | 0.2 |
| Valuation allowances, provisions and losses | **-10.7** | 61.1 [1] | 27.3 | - |
| Other general expenses | **1.1** | 0.5 | 15.2 | 120.0 |
| **Total** | **160.8** | 228.2 | 216.1 | -29.5 |

[1] On 14 April 2011, it was announced that German authorities and Julius Baer had agreed on a one-off payment by the latter of EUR 50 million to end the investigations against Julius Baer and unknown employees regarding tax matters in Germany.

# Information on the consolidated balance sheet

## 6a Due from banks

| | 30.06.2012 CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m | Change to 31.12.11 in % |
|---|---|---|---|---|
| Due from banks | **8 952.2** | 7 470.9 | 10 053.9 | -11.0 |
| Allowance for credit losses | **-5.3** | -8.9 | -5.9 | -10.2 |
| **Total** | **8 946.9** | 7 462.0 | 10 048.1 | -11.0 |

## 6b Loans

| | 30.06.2012 CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m | Change to 31.12.11 in % |
|---|---|---|---|---|
| Loans | **13 085.1** | 12 376.5 | 11 915.9 | 9.8 |
| Mortgages | **5 036.8** | 3 946.2 | 4 579.0 | 10.0 |
| Subtotal | **18 121.9** | 16 322.7 | 16 494.9 | 9.9 |
| Allowance for credit losses | **-77.6** | -54.2 | -86.5 | -10.3 |
| **Total** | **18 044.3** | 16 268.5 | 16 408.4 | 10.0 |

## 6c Allowance for credit losses

| | H1 2012 | | H1 2011 | | H2 2011 | |
|---|---|---|---|---|---|---|
| | Specific CHF m | Collective CHF m | Specific CHF m | Collective CHF m | Specific CHF m | Collective CHF m |
| Balance at the beginning of the period | **65.1** | **27.3** | 37.2 | 25.5 | 36.1 | 27.0 |
| Increase in allowance for credit losses | **2.0** | **-** | 1.9 | 1.5 | 26.4 | 0.3 |
| Decrease in allowance for credit losses | **-10.6** | **-1.0** | - | - | -0.5 | - |
| Translation differences and other adjustments | **0.1** | **-** | -3.0 | - | 3.1 | - |
| **Balance at the end of the period** | **56.6** | **26.3** | 36.1 | 27.0 | 65.1 | 27.3 |

## 6d Impaired loans

| | 30.06.2012 CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m | Change to 31.12.11 in % |
|---|---|---|---|---|
| Gross loans | **60.0** | 63.8 | 103.1 | -41.8 |
| Specific allowance for credit losses | **-56.6** | -36.1 | -65.1 | -13.1 |
| **Net loans** | **3.4** | 27.7 | 38.0 | -91.1 |

# 7a Financial investments available-for-sale

| | 30.06.2012<br>CHF m | 30.06.2011<br>CHF m | 31.12.2011<br>CHF m | Change<br>to 31.12.11 in % |
|---|---|---|---|---|
| **Money market instruments** | **2 510.1** | 6 043.2 | 3 421.3 | -26.6 |
| Government and agency bonds | **1 921.2** | 2 259.4 | 1 732.6 | 10.9 |
| Financial institution bonds | **5 343.2** | 3 824.2 | 4 430.3 | 20.6 |
| Corporate bonds | **3 381.7** | 2 226.6 | 2 509.4 | 34.8 |
| **Debt instruments** | **10 646.1** | 8 310.2 | 8 672.3 | 22.8 |
| *of which quoted* | ***9 814.7*** | *7 778.8* | *7 994.6* | *22.8* |
| *of which unquoted* | ***831.4*** | *531.4* | *677.7* | *22.7* |
| **Equity instruments** | **74.3** | 130.7 | 74.5 | -0.3 |
| *of which quoted* | ***0.1*** | *8.9* | *0.1* | *-* |
| *of which unquoted* | ***74.2*** | *121.8* | *74.4* | *-0.3* |
| **Total** | **13 230.5** | 14 484.1 | 12 168.0 | 8.7 |

# 7b Financial investments available-for-sale – Credit ratings

| **Debt instruments by credit rating classes (excluding money market instruments)** | **Fitch, S&P** | **Moody's** | 30.06.2012<br>CHF m | 30.06.2011<br>CHF m | 31.12.2011<br>CHF m |
|---|---|---|---|---|---|
| 1–2 | AAA – AA- | Aaa – Aa3 | **8 065.0** | 6 464.5 | 6 420.0 |
| 3 | A+ – A- | A1 – A3 | **2 144.0** | 1 605.9 | 2 000.6 |
| 4 | BBB+ – BBB- | Baa1 – Baa3 | **213.4** | 124.9 | 139.1 |
| 5–7 | BB+ – CCC- | Ba1 – Caa3 | **104.6** | 35.0 | 56.1 |
| 8–9 | CC – D | Ca – C | **-** | 2.6 | - |
| Unrated | | | **119.1** | 77.3 | 56.5 |
| **Total** | | | **10 646.1** | 8 310.2 | 8 672.3 |

# Capital ratios

| | 30.06.2012 CHF m | 30.06.2011 CHF m | 31.12.2011 CHF m |
|---|---|---|---|
| **Risk-weighted positions** | | | |
| Credit risk | **8 675.7** | 8 773.5 | 8 716.6 |
| Non-counterparty-related risk | **534.6** | 540.3 | 529.9 |
| Market risk | **853.3** | 1 145.3 | 671.5 |
| Operational risk | **2 871.3** | 2 867.8 | 2 892.5 |
| **Total** | **12 934.9** | **13 326.9** | **12 810.5** |
| **Eligible capital** | | | |
| Eligible tier 1 capital | **2 765.9** | 2 896.4 | 2 788.5 |
| *of which hybrid tier 1 capital*[1] | ***225.0*** | *225.0* | *225.0* |
| Eligible tier 1 and tier 2 capital | **3 056.4** | 2 930.9 | 3 067.3 |
| *of which lower tier 2 capital*[2] | ***243.1*** | - | *242.1* |

| | | | |
|---|---|---|---|
| BIS tier 1 ratio | **21.4%** | 21.7% | 21.8% |
| BIS total capital ratio | **23.6%** | 22.0% | 23.9% |

[1]The hybrid tier 1 capital consists of preferred securities issued by Julius Baer Capital (Guernsey) I Limited.
[2]The lower tier 2 capital consists of subordinated unsecured bonds issued by Julius Baer Group Ltd.

# Assets under management

| | **30.06.2012** *CHF m* | 30.06.2011 *CHF m* | 31.12.2011 *CHF m* | *Change to 31.12.11 in %* |
|---|---|---|---|---|
| Assets with discretionary mandate | **25 931** | 24 235 | 24 422 | 6.2 |
| Other assets under management | **152 876** | 141 404 | 145 898 | 4.8 |
| **Total assets under management (including double counting)**[1] | **178 807** | 165 639 | 170 320 | 5.0 |
| *of which double counting* | ***2 478*** | *2 674* | *2 491* | *-0.5* |

| | **H1 2012** *CHF m* | H1 2011 *CHF m* | H2 2011 *CHF m* | |
|---|---|---|---|---|
| Change through net new money | **5 450** | 4 934 | 5 262 | |
| Change through market and currency impacts | **3 037** | -8 965 | -581 | |
| Client assets | **268 888** | 259 972 | 258 113 | 4.2 |

[1] On 3 May 2011, the Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A. Assets under management of this company are not consolidated by the Group and are therefore not included in these numbers.

### Method of calculation

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

## Purchase of associate

On 3 May 2011, Julius Baer Group acquired 30% of São Paulo-based GPS Investimentos e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. (“GPS”). The Group paid a total consideration of CHF 52.2 million in cash. The Group also received options to acquire additional interests in GPS at a predetermined relative price. The options will be exercisable two to four years after the initial acquisition.

GPS is specialised in discretionary portfolio management and advisory services. The minority participation is treated as a strategic investment and the future close co-operation will further add growth momentum for GPS. In addition, the acquisition supports the Group’s strategic intention to build its wealth management business in one of the most attractive and promising domestic wealth management markets.

## Disposal group held for sale

The assets and liabilities held for sale at 30 June 2012 (CHF 546.5 million and CHF 546.3 million, respectively) relate to the expected disposal of the business of investment contracts where the beneficiary bears all the related risks and rewards from the investments. Previously the amounts were included in financial assets designated at fair value and financial liabilities designated at fair value, respectively. The portfolio is concentrated in Julius Baer Life (Bahamas) Ltd.

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## Julius Baer Group Ltd.

### *Interim Statutory Financial Statements as at and for the six months ended 30 June 2012 and 2011 (prepared in accordance with the Swiss Code of Obligations (Schweizerisches Obligationenrecht)) (unaudited)*

## Income statement

| | H1 2012 | H1 2011 |
|---|---|---|
| | *CHF 1000* | *CHF 1000* |
| **Income** | | |
| Interest income | **4'451** | 5'777 |
| Interest expense | **10'531** | 5'171 |
| Net interest income | **-6'080** | 606 |
| Commission income on services | **685** | 494 |
| Commission expense | **271** | 124 |
| Results from commission and service fee activities | **414** | 370 |
| Income from participations | **2'306** | 2'716 |
| Other ordinary results | **28'892** | 29'327 |
| **Operating income** | **25'532** | 33'019 |
| **Expenses** | | |
| Personnel expenses | **7'102** | 7'587 |
| General expenses | **5'613** | 5'335 |
| Operating expenses | **12'715** | 12'922 |
| **Gross profit** | **12'817** | 20'097 |
| Extraordinary expense | - | 790 |
| Taxes | **2'451** | 2'720 |
| **Net profit** | **10'366** | 16'587 |

## Balance sheet

| | 30.06.2012 | 30.06.2011 |
|---|---|---|
| | *CHF 1000* | *CHF 1000* |
| **Assets** | | |
| **Current assets** | | |
| Due from banks | **237'709** | 524'991 |
| Other claims | **1'604** | 14'659 |
| Accrued income and prepaid expenses | **28'789** | 32'062 |
| Other assets | **3'697** | 3'670 |
| **Non-current assets** | | |
| Participations | **3'203'753** | 3'153'773 |
| Other financial investments | **180'607** | 180'540 |
| Treasury shares | - | 65'032 |
| **Total assets** | **3'656'159** | 3'974'727 |
| Due from Group companies | **418'536** | 692'501 |
| **Liabilities and equity** | | |
| **Liabilities** | | |
| Due to banks | - | 200'000 |
| Debt issued | **475'000** | 225'000 |
| Accrued expenses and deferred income | **19'126** | 24'418 |
| Other liabilities | **321** | 5'607 |
| **Equity** | | |
| Share capital | **3'928** | 4'133 |
| Legal reserve | **1'885'978** | 2'434'449 |
| *of which general reserve* | ***827*** | *827* |
| *of which share premium reserve/capital contribution reserve* | ***1'885'151*** | *2'433'622* |
| *including reserve for treasury shares* | - | *66'178* |
| Other reserves | **1'258'218** | 1'058'218 |
| *of which share premium* | - | - |
| Disposable profit | **13'588** | 22'902 |
| *of which retained earnings* | ***3'222*** | *6'315* |
| *of which net profit* | ***10'366*** | *16'587* |
| **Total liabilities and equity** | **3'656'159** | 3'974'727 |
| Due to Group companies | **225'000** | 225'000 |

## Notes

| | 30.06.2012 | 30.06.2011 |
|---|---|---|
| | *CHF 1000* | *CHF 1000* |
| **Contingent liabilities** | | |
| Surety and guarantee obligations and assets pledged in favour of third parties | **1'419'802** | 967'209 |

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