

CONSOLIDATED FINANCIAL STATEMENTS

JULIUS BAER GROUP 2016 (AUDITED)

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CONSOLIDATED INCOME STATEMENT

	Note	2016 CHF m	2015 CHF m	Change %
Interest and dividend income		1,043.9	847.2	23.2
Interest expense		166.8	135.7	22.8
Net interest and dividend income	1	877.1	711.5	23.3
Commission and fee income		1,771.1	1,732.1	2.3
Commission expense		206.2	209.7	-1.7
Net commission and fee income	2	1,564.9	1,522.4	2.8
Net trading income	3	332.5	435.8	-23.7
Other ordinary results	4	77.9	24.7	215.1
Operating income		2,852.4	2,694.4	5.9
Personnel expenses	5	1,335.9	1,236.1	8.1
General expenses	6	623.2	1,100.2	-43.4
Depreciation of property and equipment	12	37.6	34.5	9.0
Amortisation of customer relationships	12	68.5	126.2	-45.7
Amortisation and impairment of other intangible assets	12	34.6	58.6	-41.0
Operating expenses		2,099.8	2,555.6	-17.8
Profit before taxes		752.6	138.8	442.2
Income taxes	7	130.4	16.3	701.4
Net profit		622.1	122.5	407.8
Attributable to:				
Shareholders of Julius Baer Group Ltd.		619.4	121.2	411.2
Non-controlling interests		2.7	1.4	101.5
		622.1	122.5	407.8
	Note	2016 CHF	2015 CHF	Change %
Share information				
Basic earnings per share (EPS)	8	2.85	0.55	414.1
Diluted earnings per share (EPS)	8	2.84	0.55	413.2
Dividend proposal 2016 and dividend 2015		1.20	1.10	9.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 CHF m	2015 CHF m
Net profit recognised in the income statement	622.1	122.5
Other comprehensive income (net of taxes):		
Items that may be reclassified to the income statement		
Net unrealised gains/(losses) on financial investments available-for-sale	19.8	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	7.8	0.3
Translation differences	22.8	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	-0.0	0.2
Items that will not be reclassified to the income statement		
Remeasurement of defined benefit obligation	18.9	-98.4
Other comprehensive income	69.2	-263.2
Total comprehensive income	691.3	-140.7
Attributable to:		
Shareholders of Julius Baer Group Ltd.	685.7	-139.3
Non-controlling interests	5.6	-1.4
	691.3	-140.7

CONSOLIDATED BALANCE SHEET

	Note	31.12.2016 CHF m	31.12.2015 CHF m
Assets			
Cash		13,599.5	9,185.7
Due from banks	9	11,389.8	6,901.1
Loans	9	38,419.0	36,380.9
Trading assets	10	7,660.7	8,984.0
Derivative financial instruments	24	2,690.9	2,189.1
Financial assets designated at fair value	25	252.4	197.0
Financial investments available-for-sale	11	18,266.6	16,572.5
Investments in associates	26	29.4	90.3
Property and equipment	12	373.8	373.2
Goodwill and other intangible assets	12	2,834.3	2,316.4
Accrued income and prepaid expenses		327.2	366.2
Deferred tax assets	17	28.8	23.8
Other assets		335.0	535.4
Total assets		96,207.2	84,115.5

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	<i>Note</i>	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
Liabilities and equity			
Due to banks		10,076.8	4,672.0
Due to customers		67,495.2	64,781.4
Trading liabilities	10	159.0	190.8
Derivative financial instruments	24	2,285.3	2,391.4
Financial liabilities designated at fair value	15	8,444.4	4,263.1
Debt issued	16	1,213.5	1,152.7
Accrued expenses and deferred income		620.3	530.1
Current tax liabilities		123.0	65.6
Deferred tax liabilities	17	77.8	41.6
Provisions	18	23.0	575.2
Other liabilities		335.1	509.7
Total liabilities		90,853.4	79,173.5
Share capital	19	4.5	4.5
Retained earnings		5,840.4	5,467.8
Other components of equity		-251.6	-317.9
Treasury shares		-263.1	-218.9
Equity attributable to shareholders of Julius Baer Group Ltd.		5,330.2	4,935.6
Non-controlling interests		23.6	6.4
Total equity		5,353.9	4,942.0
Total liabilities and equity		96,207.2	84,115.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital CHF m	Retained earnings ¹ CHF m
At 1 January 2015	4.5	5,560.3
Net profit	-	121.2
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	121.2
Dividends	-	-223.8
Dividend income on own shares	-	4.8
Share-based payments expensed for the year	-	60.0
Share-based payments vested	-	-55.1
Changes in derivatives on own shares	-	14.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-13.8
At 31 December 2015	4.5	5,467.8
At 1 January 2016	4.5	5,467.8
Net profit	-	619.4
Unrealised gains/(losses)	-	-
Realised (gains)/losses reclassified to the income statement	-	-
Changes	-	-
Total other comprehensive income	-	-
Total comprehensive income	-	619.4
Changes in non-controlling interests	-	-23.4²
Dividends	-	-246.2
Dividend income on own shares	-	6.2
Share-based payments expensed for the year	-	70.8
Share-based payments vested	-	-49.4
Changes in derivatives on own shares	-	-0.2
Acquisitions of own shares	-	-
Disposals of own shares	-	-4.5
At 31 December 2016	4.5	5,840.4

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

² Related to the acquisition of GPS Investimentos Financeiros e Participações S.A. and Julius Bär Wealth Management AG.

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

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Other components of equity						
Financial investments available-for-sale, net of taxes CHF m	Remeasurement of defined benefit obligation CHF m	Translation differences CHF m	Treasury shares CHF m	Equity attributable to shareholders of Julius Baer Group Ltd. CHF m	Non-controlling interests CHF m	Total equity CHF m
108.5	-123.0	-42.9	-178.7	5,328.7	9.1	5,337.8
-	-	-	-	121.2	1.4	122.5
-85.8	-	-76.9	-	-162.6	-2.7	-165.4
0.3	-	0.2	-	0.5	-	0.5
-	-98.4	-	-	-98.4	-	-98.4
-85.4	-98.4	-76.7	-	-260.5	-2.7	-263.2
-85.4	-98.4	-76.7	-	-139.3	-1.4	-140.7
-	-	-	-	-223.8	-1.3	-225.1
-	-	-	-	4.8	-	4.8
-	-	-	-	60.0	-	60.0
-	-	-	55.1	-	-	-
-	-	-	8.9	23.2	-	23.2
-	-	-	-232.0	-232.0	-	-232.0
-	-	-	127.9	114.1	-	114.1
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
23.1	-221.4	-119.6	-218.9	4,935.6	6.4	4,942.0
-	-	-	-	619.4	2.7	622.1
19.8	-	19.8	-	39.6	2.9	42.5
7.8	-	-0.0	-	7.8	-	7.8
-	19.0	-	-	19.0	-0.1	18.9
27.5	19.0	19.8	-	66.3	2.9	69.2
27.5	19.0	19.8	-	685.7	5.6	691.3
-	-	-	-	-23.4	13.7 ³	-9.7
-	-	-	-	-246.2	-2.1	-248.3
-	-	-	-	6.2	-	6.2
-	-	-	-	70.8	-	70.8
-	-	-	49.4	-	-	-
-	-	-	-3.5	-3.7	-	-3.7
-	-	-	-305.7	-305.7	-	-305.7
-	-	-	215.5	211.0	-	211.0
50.6	-202.4	-99.8	-263.1	5,330.2	23.6	5,353.9

CONSOLIDATED STATEMENT OF CASH FLOWS

	2016 CHF m	2015 CHF m
Net profit	622.1	122.5
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	37.6	34.5
- Amortisation and impairment of intangible assets	103.1	184.8
- Allowance for credit losses	15.1	35.9
- Income from investment in associates	-48.7	-5.9
- Deferred tax expense/(benefit)	8.4	-60.3
- Net loss/(gain) from investing activities	80.2	92.1
- Other non-cash income and expenses	70.8	60.0
Net increase/decrease in operating assets and liabilities:		
- Net due from/to banks	5,131.4	-981.6
- Trading portfolios and derivative financial instruments	682.7	-1,295.9
- Net loans/due to customers	-245.4	-529.3
- Accrued income, prepaid expenses and other assets	335.4	-400.0
- Accrued expenses, deferred income, other liabilities and provisions	-653.7	158.9
Adjustment for income tax expenses	122.0	76.5
Income taxes paid	-78.3	-125.3
Cash flow from operating activities	6,182.9	-2,633.1
Dividend of associates	10.2	4.4
Purchase of property and equipment and intangible assets	-172.9	-105.9
Disposal of property and equipment and intangible assets	0.3	0.7
Net (investment in)/divestment of financial investments available-for-sale	-251.9	-2,415.1
Acquisition of subsidiaries and businesses, net of cash and cash equivalents acquired	556.1	967.7
Deferred payment of acquisition of subsidiaries and associates	-11.2	-28.9
Cash flow from investing activities	130.7	-1,577.1
Net money market instruments issued/(repaid)	78.7	-0.1
Net movements in treasury shares and own equity derivative activity	-92.2	-89.9
Dividend payments	-246.2	-223.8
Issuance and repayment of financial liabilities designated at fair value	4,126.0	-211.4
Issuance of perpetual tier 1 subordinated bond	230.4	319.3
Repayment of lower tier 2 bond	-250.0	-
Change in non-controlling interests	-9.6	-
Dividend payment to non-controlling interests	-2.1	-1.3
Cash flow from financing activities	3,835.0	-207.3
Net (decrease)/increase in cash and cash equivalents	10,148.6	-4,417.6

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	2016 <i>CHF m</i>	2015 <i>CHF m</i>
Cash and cash equivalents at the beginning of the year	18,128.7	22,293.4
Cash flow from operating activities	6,182.9	-2,633.1
Cash flow from investing activities	130.7	-1,577.1
Cash flow from financing activities	3,835.0	-207.3
Effects of exchange rate changes on cash and cash equivalents	-6.4	252.9
Cash and cash equivalents at the end of the year	28,270.9	18,128.7

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
Cash and cash equivalents are structured as follows:		
Cash	13,599.5	9,185.7
Money market instruments	3,785.0	2,298.1
Due from banks (original maturity of less than three months)	10,886.4	6,645.0
Total	28,270.9	18,128.7

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
Additional information		
Interest received	895.4	605.5
Interest paid	-156.0	-121.2
Dividends on equities received (including associates)	209.4	153.7

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Julius Baer Group Ltd. is a Swiss corporation which is committed to the private banking business. The consolidated financial statements as at 31 December 2016 comprise those of Julius Baer Group Ltd. and all its subsidiaries (the Group). The Board of Directors approved these financial statements on 31 January 2017. In addition, they are submitted for approval at the Annual General Meeting on 12 April 2017.

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

USE OF ESTIMATES IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

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

Estimates and assumptions are used mainly in the following areas of the consolidated financial statements and are 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 (determination in a business combination and measurement of recoverable amount) and contingent considerations.

ACCOUNTING POLICIES

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

Business combinations

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

Subsidiaries and associates

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

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

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

A complete list of these companies is provided in Note 26. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Group until the date that control ceases.

Companies in which Julius Baer Group Ltd. has the ability to exercise significant influence over the financial and operating policies are reported in the consolidated financial statements using the equity method. These associates are initially recorded at

cost as of the date of acquisition. Subsequently, the carrying amount is adjusted for the post-acquisition change in the Group's share of the associate's net assets.

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

Foreign currency translation

The Group companies prepare their financial statements in the respective functional currency. The balance sheets of Group companies that are denominated in foreign currencies are translated into Swiss francs at the closing exchange rates on the balance sheet date. Average exchange rates for the reporting period are used for the income statements. Exchange differences arising from consolidation using closing and average exchange rates for the reporting period are recognised in other

comprehensive income. When a foreign operation is disposed of such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

In the individual financial statements of the Group companies, income and expenses denominated in foreign currencies are translated at the exchange rate on the date of the respective transaction. Assets and liabilities are translated at the closing exchange rate on the balance sheet date. The resulting gains and losses on monetary assets and liabilities are recognised in the income statement as foreign exchange gains/losses. Unrealised exchange differences on equity securities available-for-sale are a component of the change in their entire fair value and are recognised in other comprehensive income.

The following exchange rates are used for the major currencies:

	Year-end rates		Average exchange rates for the year	
	31.12.2016	31.12.2015	2016	2015
USD/CHF	1.0164	1.0010	0.9875	0.9645
EUR/CHF	1.0720	1.0874	1.0890	1.0640
GBP/CHF	1.2559	1.4753	1.3280	1.4710

Reporting of transactions

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

Income recognition

Income from services provided is either recognised at the time the service is performed, i.e. upon execution of a transaction, or in the corresponding

periods over the life of a contract if services are provided over a certain period of time. Income and income components that are based on performance are recognised at the time when all performance criteria are fulfilled.

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.

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

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

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

Collective allowances: In addition to the specific allowances for credit losses, a collective allowance for credit losses is established to account for inherent credit risks collectively, i.e. on a portfolio basis. This collective allowance for credit losses is calculated on the basis of 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 lending and borrowing transactions are collateralised by securities or cash. The transactions are usually conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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

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

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

Repurchase and reverse repurchase transactions

Reverse repurchase transactions and repurchase transactions are considered secured financing transactions and are recorded at the value of the

cash provided or received. The transactions are generally conducted under standard agreements employed by the market participants; the counterparties are subject to the Group's normal credit risk process.

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

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

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

Trading assets/liabilities

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

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

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

Financial assets and liabilities designated at fair value

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

- they are hybrid instruments which consist of a debt host and an embedded derivative component;

- they are part of a portfolio which is risk-managed on a fair value basis; or
- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise.

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

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

Derivative financial instruments and hedging

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

The Group uses derivative financial instruments for hedging the fair values (fair value hedges) when transactions meet the specified criteria to obtain hedge accounting treatment. Derivatives categorised as serving such purposes on their trade date are treated as hedging instruments in the financial statements if they fulfil the following criteria:

- existence of documentation that specifies the underlying transaction (balance sheet item or cash flow), the hedging instrument as well as the hedging strategy/relationship;
- effective and reliably measurable elimination of the hedged risks through the hedging transaction during the entire reporting period; and

- sustained high effectiveness of the hedging transaction. A hedge is regarded as highly effective if actual results are within a range of 80% to 125%.

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

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

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

Financial investments available-for-sale

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

Equity securities are deemed impaired if there has been a significant or prolonged decline of fair value below the 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 and dividend income.

Property and equipment

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

Bank premises are depreciated over a period of 66 years. Leasehold improvements are depreciated over the shorter of the residual lease term or useful life. Installations are depreciated over a period not exceeding ten years, IT hardware over three years and other items of property and equipment over five years.

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

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

On each balance sheet date, the items of property and equipment are reviewed for indications of impairment. If such indications exist, it is determined

whether the carrying amount of the item is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Leasing

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

Goodwill and intangible assets

Goodwill and intangible assets are classified into the following categories:

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

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

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

On each balance sheet date, the intangible assets with a finite life (customer relationships, software) are reviewed for indications of impairment. If such indications exist, it is determined whether the carrying

amount of the intangible assets is fully recoverable, and an impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Due to banks and customers

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

Debt issued

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

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

Provisions

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

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

Income taxes

Income tax expense comprises current and deferred taxes. Current income taxes are calculated on the basis of the applicable tax laws of the respective countries and are recognised as expense in the

financial year in which the related taxable income arises. Liabilities related to current taxes are recognised in the balance sheet as current tax liabilities.

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

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

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

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

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

Post-employment benefits

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

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

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

Share-based payments

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

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

Share capital

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

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

Treasury shares and contracts on treasury shares

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

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

Contracts on shares of Julius Baer Group Ltd. that must be 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 initial recognition. The liability is subsequently increased during the term of the contract up to the strike price using the effective interest method. Upon settlement of the contract the liability is derecognised.

Earnings per share (EPS)

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

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

Segment reporting

Determination of the operating segments is based on the management approach. The management approach reflects the way in which management

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

Contingent liabilities and irrevocable commitments

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

CHANGES IN ACCOUNTING POLICIES

In 2016, the following amendments have been applied in the Group:

Disclosure Initiative

The amendments to IAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The amendments had no material impact on the presentation of the Group's financial statements.

Annual Improvements to IFRSs (2012–2014 Cycle)

A number of amendments to several standards are included in the IASB's Annual Improvement Projects. 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:

IFRS 9 – Financial Instruments

The new standard includes the following changes to current accounting for financial instruments:

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

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

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

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

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

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

In general, the expected credit loss model uses a dual measurement approach: if the credit risk of a financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12-month expected losses. If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses.

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

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

The new standard will be effective 1 January 2018, with early application available for certain parts. However, the Group does not intend to early apply these parts of IFRS 9.

During 2016, the Group continued its assessment of the impact on the Group's financial statements and expects the following:

Recognition and measurement: Based on the analyses of the two classification criteria ‘contractual cash flow characteristics’ and ‘business model’, the Group determined that the financial instruments currently reported at amortised cost generally fulfil the criteria and therefore will be measured at amortised cost on an ongoing basis. The same applies to the vast majority of the debt financial instruments currently reported as available-for-sale and therefore measured at fair value through OCI, which will also be measured at fair value through OCI in the future. Certain equity instruments currently measured at fair value through OCI will be classified at fair value through profit or loss going forward. Therefore, the Group does not expect significant changes to the measurement basis arising from adopting the new classification and measurement model.

Expected credit losses: The Group is currently modelling the impairment loss estimation methodology to quantify the impact of the expected credit losses on its financial statements. The models are generally based on the financial instrument’s probability of default (PD), its loss given default (LGD) and the exposure at default (EAD), taking into account the respective interest rates. These models are tailored to the Group’s fully collateralised Lombard loans and mortgages, and the high-quality debt instruments in the Treasury portfolio. The quantitative impact of the new expected credit loss model has not yet been assessed.

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

Hedge accounting: The Group expects that all its existing hedges that are designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

IFRS 15 – Revenue Recognition

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

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

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

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

The new standard will be effective 1 January 2018 with earlier application permitted. However, the Group does not intend to early apply IFRS 15. The impact of the new standard on the Group’s financial statements is not expected to be material.

IFRS 16 – Leases

The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability.

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

COMMENT ON RISK AND CAPITAL MANAGEMENT

RISK MANAGEMENT FRAMEWORK AND PROCESS

Risk types

For the purposes of this report, risk comprises both the probability of a given event occurring and its potential adverse impact in the event of a deviation from the Group's defined objectives. Risk taking is an inherent component of our day-to-day business activities. Risk management therefore constitutes an integral part of the Group's business framework. It is supported by a number of risk-control procedures, which are seen as business enablers critical to the management process of the 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. Especially as far as legal and compliance risk matters are concerned, he coordinates his activities with the GC, who, as a member of the Executive Board of Julius Baer Group Ltd., is responsible for the management and control of legal and compliance risk at Group level. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance-sheet, capital and liquidity management. The CFO's duties thus include maintaining a sound ratio of eligible capital to risk-weighted positions and ensuring that sufficient liquidity is available at all times.

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

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

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

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

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

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

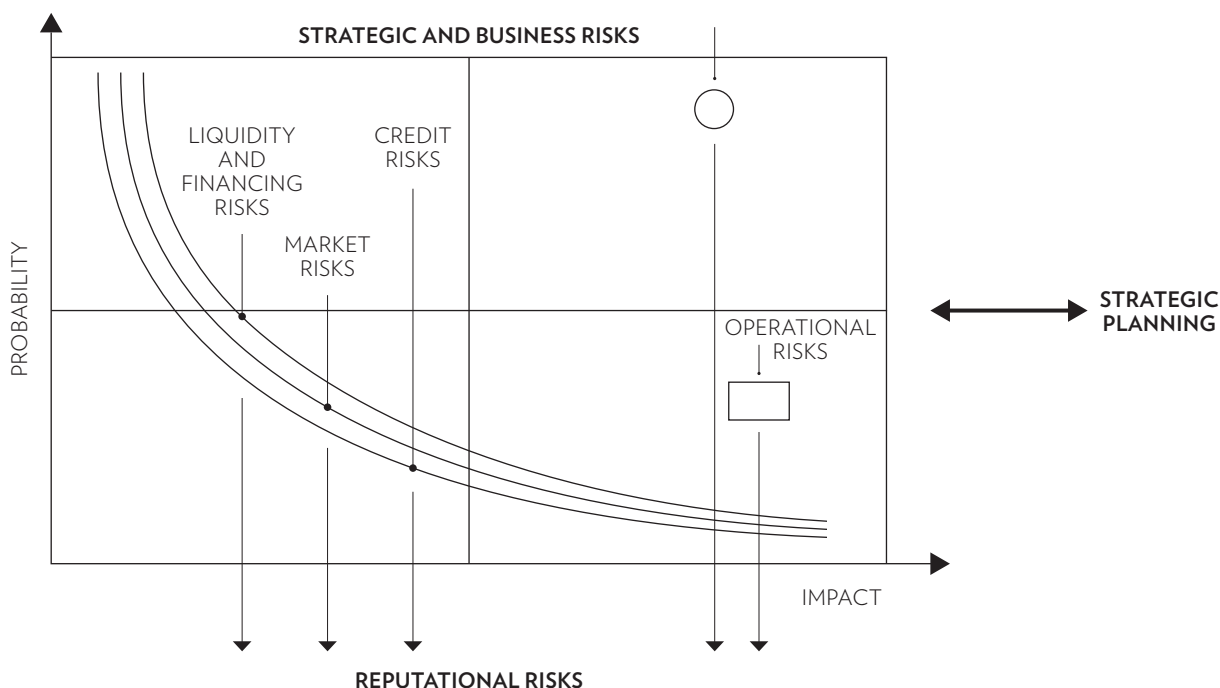
- formulating policies governing credit risk;
- making credit business decisions and allocating credit limits within the scope of its remit;
- delegating credit authority;
- receiving and reviewing credit risk reports.

The Information Security Committee of the Executive Board of Bank Julius Baer & Co. Ltd. is responsible both for monitoring and supervising

information security risk and for related activities for the purpose of ensuring data confidentiality and integrity.

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

Risk landscape: illustrative diagram



STRATEGIC AND BUSINESS RISK

Strategic and business risk comprises the danger of external or internal events or decisions resulting in strategic and day-to-day business objectives not being attained. Based on the principles of value- and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in the aforementioned risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input 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 a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company. Such non-compliance may result in a financial loss to the Group.

The Group has a policy of lending to private clients primarily on a collateralised basis. The credit risk taken on by the Group as a result of such transactions may arise from lending or from actual or potential receivables due to the Group on client-held positions in derivatives on foreign exchange, equity, interest rate or commodity products. As part of the risk management process, clients' collateral positions are individually assessed and valued. Depending on the quality of the collateral and the degree of diversification within individual client portfolios, an advanceable value is set for each collateral position. The overwhelming majority of collateral positions is revalued every day, thus enabling the Group's credit positions to be monitored on a daily basis.

In addition, the Group engages in transactions with banks, brokers and selected institutional clients on both a secured and unsecured basis. This involves individual risk limits and settlement limits being approved for each counterparty. The credit exposures arising from these transactions are monitored on a daily basis, and netting agreements and collateral agreements are also used to mitigate exposures further.

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

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

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

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

In the following table the counterparty domicile serves as the fundamental basis for the geographical breakdown. For the secured portion of the credit, however, geographical allocation is shown on the

basis either of the domicile of the assets pledged, e.g. the domicile of the issuer of securities which are pledged as collateral, or the domicile of the guarantor.

Credit risk by region

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

						31.12.2015
	Switzerland CHF m	Europe CHF m	Americas CHF m	Asia/Pacific CHF m	Other countries CHF m	Total CHF m
Due from banks	1,927	1,676	482	2,152	1	6,238
Loans	9,217	10,714	8,398	7,652	400	36,381
Financial assets designated at fair value	-	149	48	-	-	197
Financial investments available-for-sale	68	7,328	6,437	2,607	45	16,485
Investments in associates	-	61	29	-	-	90
Derivative financial instruments	1,383	586	382	245	7	2,603
Contingent liabilities	102	163	169	65	13	512
Irrevocable commitments	188	131	64	21	1	405
Securities lending and repo transactions	829	2,996	486	113	6	4,430
Total	13,714	23,804	16,495	12,855	473	67,341

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

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

Credit risk by sector

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

	31.12.2015				
	Governments and agencies CHF m	Financial institutions CHF m	Private clients CHF m	Other CHF m	Total CHF m
Due from banks	-	6,238	-	-	6,238
Loans	486	4,536	24,369	6,990	36,381
Financial assets designated at fair value	-	197	-	-	197
Financial investments available-for-sale	5,975	6,102	-	4,408	16,485
Investments in associates	-	90	-	-	90
Derivative financial instruments	15	1,530	857	201	2,603
Contingent liabilities	8	56	364	84	512
Irrevocable commitments	35	118	185	67	405
Securities lending and repo transactions	675	2,914	46	795	4,430
Total	7,194	21,781	25,821	12,545	67,341

The collateral pledged to cover Lombard loans, OTC derivatives positions and securities lending and repo transactions consists primarily of readily marketable securities. In the following table all the collateral accepted within the scope of the capital adequacy

regulations is disclosed. The haircuts applied to the collateral positions are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS standard haircuts.

Credit risk secured/not secured

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

			31.12.2015
	Secured by recognised financial collaterals ¹ CHF m	Not secured by recognised financial collaterals CHF m	Total CHF m
Due from banks	2,426	3,812	6,238
Loans	33,764	2,617	36,381
Financial assets designated at fair value	-	197	197
Financial investments available-for-sale	-	16,485	16,485
Investments in associates	-	90	90
Derivative financial instruments	1,237	1,366	2,603
Contingent liabilities	473	39	512
Irrevocable commitments	195	210	405
Securities lending and repo transactions	3,658	772	4,430
Total	41,753	25,588	67,341

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

The following table gives an overview of the credit risk classified by regulatory risk weightings. The regulatory risk weightings are in accordance with current Swiss regulatory requirements, which are based on the Basel III BIS approach. The allocation of the receivables to the risk weights depends on the

type and current rating of the counterparty or the individual rating of the specific financial investment held. The collateralised portion of receivables (other than mortgages) is allocated to the 0% risk-weight column, since no regulatory capital is required in respect of these lending positions.

Credit risk by regulatory risk weightings

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

	31.12.2015							
	0%	20%	35%	50%	75%	100%	150% or greater	Total
	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m	CHF m
Due from banks	2,440	3,132	-	643	-	19	4	6,238
Loans	24,943	42	6,677	320	631	3,764	4	36,381
Financial assets designated at fair value	197	-	-	-	-	-	-	197
Financial investments available-for-sale	4,954	5,552	-	5,647	-	315	17	16,485
Investments in associates	-	-	-	-	-	-	90	90
Derivative financial instruments	1,237	269	-	868	-	229	-	2,603
Contingent liabilities	472	-	-	8	-	32	-	512
Irrevocable commitments	195	30	-	81	-	99	-	405
Securities lending and repo transactions	3,658	593	-	-	-	179	-	4,430
Total	38,096	9,618	6,677	7,567	631	4,637	115	67,341

Reconciliation of credit risk totals

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

- The difference in the due-from-banks position is attributable to the fact that under IFRS reverse repurchase positions are recognised on the balance sheet. This differs from the Basel III BIS approach, under which reverse repurchase positions are disclosed as off-balance sheet items under securities lending and repurchase positions. The credit risk tables have been adjusted to avoid double counting.
- In the financial investments available-for-sale position the unrealised gains are deducted from the market value under the Basel III BIS approach.
- The total amount of exposure in derivative financial instruments under the Basel III BIS approach corresponds to the total of the replace-

ment values as disclosed in the balance sheet, plus calculated add-ons, minus any netting permitted under Basel III BIS. The add-on is a percentage of the notional amount of the instrument underlying the contract. The percentage depends on the type of the underlying and the residual term to maturity of the contract. Positive and negative replacement values of derivative exposures with the same counterparty (irrespective of maturity or currency) are netted against each other if a legally acknowledged netting agreement has been signed.

- Under the Basel III BIS approach, the total contingent liabilities and irrevocable commitments off-balance sheet positions correspond to the calculated credit equivalents. The credit equivalent of each off-balance sheet position is determined by multiplying its nominal value (or current value should this be lower) by a credit-conversion factor. The conversion factor depends on the original maturity of the contract. The contingent liabilities and irrevocable commitments as presented in the credit risk tables do not qualify as contingent liabilities under IFRS.
- Under the Basel III BIS approach, securities lending and repurchase transactions are disclosed including risk premiums. The percentage of the risk premium depends on the quality of the security involved in each securities lending or repo transaction.

Reconciliation of credit risk totals with balance sheet positions

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

Comments on off-balance sheet positions

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

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

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COMMENT ON RISK AND CAPITAL MANAGEMENT

Reconciliation of credit risk totals with balance sheet positions

	Basel III BIS approach CHF m	Balance sheet CHF m	Deviation CHF m	Comment
Due from banks	6,237.8	6,901.1	-663.3	reverse repurchase transactions of CHF 666.3 million deducted
Loans	36,380.9	36,380.9	-	
Financial assets designated at fair value	197.0	197.0	-	
Financial investments available-for-sale	16,485.0	16,572.5	-87.5	unrealised gains deducted under BIS approach (CHF 108.2 million); partly offset by transfer of securities from trading to banking book under BIS approach (CHF 20.7 million)
Investments in associates	90.3	90.3	-	
Derivative financial instruments	2,603.1	2,189.1	414.0	
<i>of which security supplement (add-ons)</i>			876.9	<i>according to add-on and netting rules under BIS approach</i>
<i>of which netting of replacement values</i>			-462.9	<i>impact of netting rules under BIS approach</i>
Total 31.12.2015	61,994.1	62,330.9	-336.8	

Comments on off-balance sheet positions

	Basel III BIS approach CHF m	Off-balance sheet total CHF m	Deviation CHF m	Comment
Contingent liabilities	512.2	1,057.4 ¹	-545.2	converted in credit equivalent
Irrevocable commitments	405.0	824.9 ¹	-419.9	converted in credit equivalent
Securities lending and repo transactions	4,429.7	4,133.0	296.7	including risk premium
Total 31.12.2015	5,346.9			

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

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

In this analysis, credit exposure primarily comprises the following elements: cash exposure (such as advances, account overdrafts, cash balances with correspondent banks, etc.), derivatives exposure (replacement value plus add-on), and issuer risk from debt securities held in the Group's investment and treasury books. Exposure from reverse repo and securities lending transactions is not included in this credit exposure analysis, since these positions are

over-collateralised on a net basis and therefore do not constitute credit risk. In this context, over-collateralised on a net basis means that, in each transaction, the value of the collateral provided (without regulatory standard haircuts being applied) exceeds the value of the securities lent (without a risk premium being applied). Intraday settlement exposures are also not included in the credit exposure analysis. These are monitored separately. The credit exposure arising from the trading book, which is insignificant compared to that arising from the positions listed above, is also not included in this analysis.

For the purpose of this analysis, client cash balances across different accounts and Lombard sureties are netted against each other in accordance with the pledge agreements in place. Derivatives exposures across different products, accounts and counter-parties are netted against each other provided an ISDA close-out netting master agreement has been signed.

Exposure to credit risk by credit quality

	31.12.2016 Collateralised CHF m	31.12.2015 Collateralised CHF m	31.12.2016 Unsecured CHF m	31.12.2015 Unsecured CHF m
Neither past due nor impaired	43,277.4	40,843.4	36,580.4	31,165.7
Past due but not impaired	9.4	14.9	-	-
Impaired	69.2	65.0	-	-
Total	43,356.0	40,923.3	36,580.4	31,165.7

Neither past due nor impaired

R1 to R3	37,230.2	34,658.6	35,358.6	29,758.8
R4 to R6 (including temporarily unrated)	6,047.2	6,184.8	1,221.8	1,406.9
Total	43,277.4	40,843.4	36,580.4	31,165.7
<i>Collateral held or credit enhancement available</i>	173,841.5	164,035.7	-	-

Past due but not impaired

R7	9.4	14.9	-	-
Total	9.4	14.9	-	-
<i>Collateral held or credit enhancement available</i>	9.3	12.4	-	-

Impaired

R8	25.0	28.6	-	-
R9 to R10	44.2	36.4	-	-
Total	69.2	65.0	-	-
<i>Collateral held or credit enhancement available</i>	30.1	14.8	-	-

Allowance for credit losses¹

Specific allowance for credit losses	54.2	65.8	-	-
Collective allowance for credit losses	24.9	24.3	1.3	2.3
Total	79.1	90.1	1.3	2.3

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

The internal credit ratings R1–R10 form the basis for calculating allowances for credit losses. Loans, receivables and other exposures are allocated to one of the ten rating classes. In the case of rating classes R1–R6, the outstanding balances are serviced, the advanceable value of the collateral (at fair value) pledged for collateralised exposures equals or exceeds the balances, and repayment of the balance is not in doubt. For these exposures, 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 carrying amount.

Maximum exposure to credit risk

	31.12.2016 Gross maximum exposure CHF m	31.12.2015 Gross maximum exposure CHF m
Cash (excluding cash on hand)	13,572.5	9,155.5
Due from banks	11,389.8	6,901.1
Loans	38,419.0	36,380.9
Trading assets	1,415.0	1,155.7
Derivative financial instruments	2,690.9	2,189.1
Financial assets designated at fair value	252.4	197.0
Financial investments available-for-sale	18,101.1	16,475.3
Accrued income	282.8	326.9
Total	86,123.5	72,781.5
Off-balance sheet		
Irrevocable commitments ¹	813.3	824.9
Total maximum exposure to credit risk	86,936.8	73,606.4

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

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.

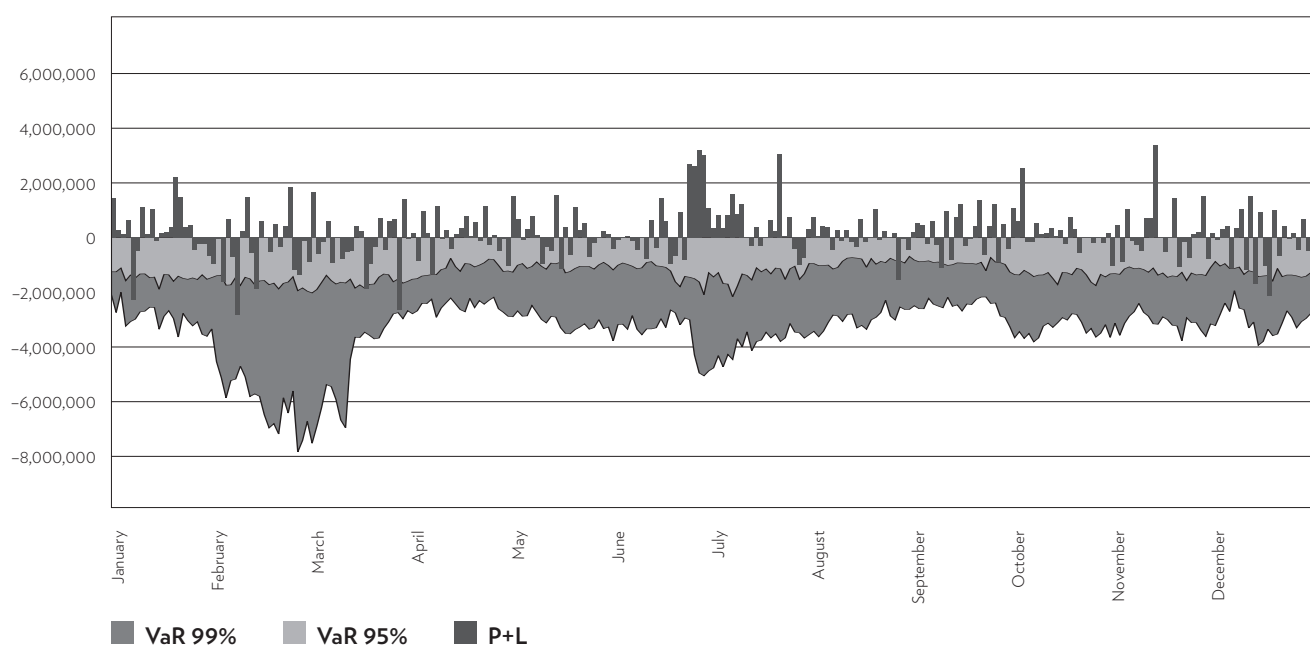
Market risk measurement, market risk limitation, back testing and stress testing

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 1.23 million on 31 December 2016 (one-day holding period, 95% confidence interval). The maximum VaR recorded in 2016 amounted to CHF 2.19 million; the minimum

was CHF 0.70 million. The adequacy of the VaR calculation, which is based on historical market movements, is monitored through regular back testing. This involves the comparison of the VaR values calculated each day with the hypothetical gains or losses which would have occurred if the end-of-day positions had been left unchanged on the next trading day. The following chart shows the daily calculations of VaR in 2016 (at confidence

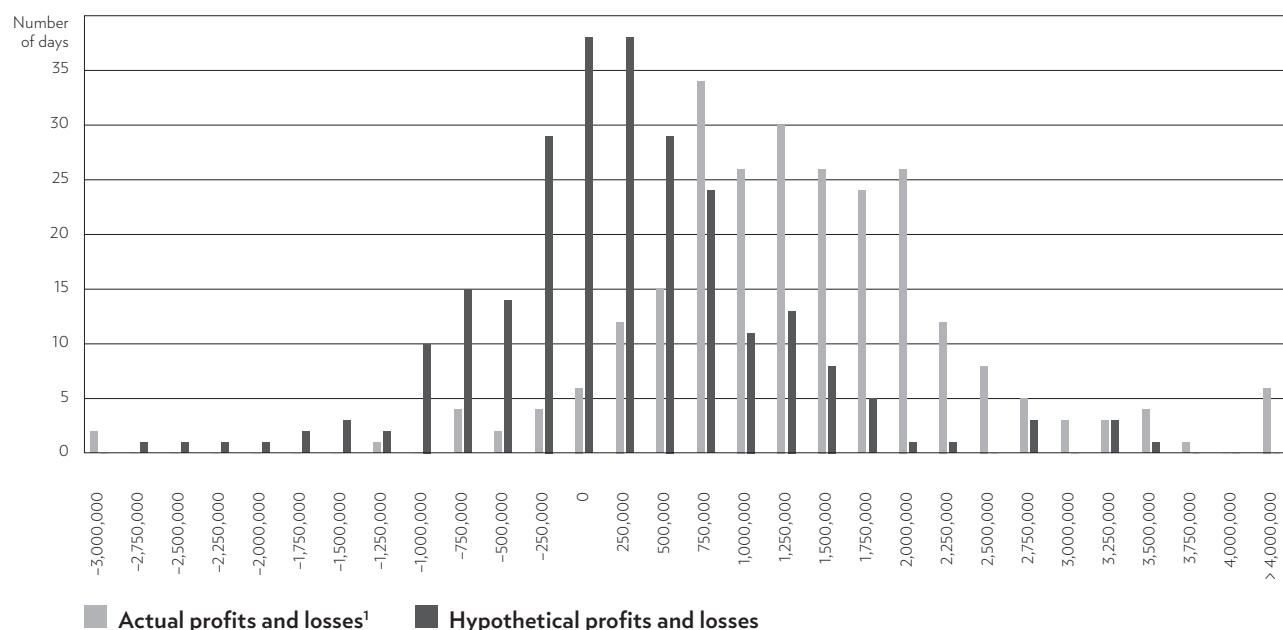
intervals of 95% and 99% and for a one-day holding period) compared with these hypothetical gains or losses. A back-testing excession occurs when the change in overall position value resulting from the back-testing simulation is negative and its absolute value is greater than the VaR (at a confidence interval of 99%) for the relevant day's closing positions.

Back testing of Julius Baer Group trading book positions in 2016 (CHF)



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

Distribution of daily revenues from trading activities of Julius Baer Group for 2016 (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.

At the beginning of 2016, the preceding 12-month period contained six back-testing excessions. These were attributable to a variety of factors. The decision by the Swiss National Bank in January 2015 to abandon its exchange rate floor for the EUR against the CHF led to a marked downward correction in Swiss share prices and a substantial appreciation of the CHF. This resulted in two back-testing excessions on the USD position the Group continued to hold for the financing of its acquisition of parts of Merrill Lynch's International Wealth Management business. In May and June 2015, weakness in the USD and the Swiss Market Index led to two further back-testing excessions. In August 2015, markedly

lower share prices in China caused international equity markets to falter, which again strengthened the CHF. This resulted in two additional back-testing excessions. Since these excessions were more numerous than the statistically permitted limit, the capital multiplier had to be increased.

No new back-testing excessions occurred during the course of 2016. As the above-mentioned back-testing excessions from 2015 were gradually eliminated from the trailing 12-month sample during 2016, there were no excessions to report in the 12 months to 31 December 2016. By January 2016, this had already resulted in a reduction in the capital multiplier applied to the Julius Baer Group.

All back-testing excessions are examined individually and each is reported to the Chief Executive Officer, the Chief Risk Officer, the internal and external auditors and the Swiss Financial Market Supervisory Authority (FINMA).

VaR method and regulatory capital

For its VaR calculation, the Group uses historical simulation with complete revaluation of all trading positions in each instance. The historical simulation is based on empirically observed changes in market parameters (prices, yield curves, volatilities) over the last 300-trading-day period. As a result, correlation is taken into account implicitly, without having to draw on calculations and assumptions based on a correlation matrix. The risk management platform and the internal market risk models of the Group fulfil the relevant regulatory requirements and have been approved by FINMA for use in determining the capital requirement for market risks in the trading book.

In addition to the normal VaR calculations detailed above, a so-called stress-based VaR calculation is also carried out. Instead of the historical prices observed over the last 300 trading days, this stress-based VaR calculation uses those observed during a highly volatile period in the past (the stress period). The Group's stress-based VaR amounted to

CHF 2.05 million on 31 December 2016 (for a one-day holding period and a 95% confidence interval). The maximum stress-based VaR recorded in 2016 amounted to CHF 3.00 million; the minimum was CHF 0.80 million. Under FINMA regulations, the capital requirement for market risk is the sum of the normal VaR and the stress-based VaR.

FINMA applies a multiplier to the capital requirement for market risk. Every back-testing excursion over and above the statistically based maximum permitted number of excursions results in an increase in the multiplier applied to the capital requirement for market risk. There were no back-testing excursions to report for the 12 months to 31 December 2016.

Given the limited materiality of the positions concerned, the specific risk of the Group's fixed-income trading positions is calculated according to the standard method. The incremental risk charge and comprehensive risk-capital charge requirements are not applicable.

The following table is a summary of the VaR positions of the Group's trading portfolios:

Market risk – VaR positions by risk type

	At 31 December CHF m	Average CHF m	Maximum CHF m	2016 Minimum CHF m
Equities	-0.9	-0.8	-1.8	-0.1
Interest rates	-0.8	-0.8	-1.3	-0.2
Foreign exchange/precious metals	-0.4	-0.9	-1.7	-0.3
Effects of correlation	0.9			
Total	-1.2	-1.3	-2.2	-0.7
	At 31 December CHF m	Average CHF m	Maximum CHF m	2015 Minimum CHF m
Equities	-0.4	-0.6	-1.6	-0.2
Interest rates	-0.2	-0.2	-0.4	-0.1
Foreign exchange/precious metals	-1.0	-1.0	-2.1	-0.1
Effects of correlation	0.4			
Total	-1.3	-1.2	-3.3	-0.5

FINANCING, LIQUIDITY AND INTEREST RATE RISKS IN THE BANKING BOOK

Financing risk is the risk of the Group being unable to finance its existing or planned activities on an ongoing basis at acceptable prices. Liquidity risk, conversely, is the risk of the Group being unable to meet its payment obligations when they fall due. Interest rate risk is defined as the effect of potential changes in interest rates on the market value of the Group's assets and liabilities.

Governance

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

Management of liquidity and financing risks

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

A liquidity stress scenario is modelled, which, over a time horizon of 30 days, essentially simulates substantial outflows of client deposits which would be stable under normal circumstances and the Group's ability to compensate for these by selling highly liquid investments and taking other appropriate measures. This scenario models an

extreme stress situation combining company-specific stress events with tight market conditions. It is calculated on a daily basis.

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

Switzerland's Liquidity Ordinance and FINMA's 'Liquidity Risks – Banks' circular make it a regulatory requirement for the Group to calculate and monitor its Liquidity Coverage Ratio (LCR). The LCR provides banks with a metric to assist them in ensuring that they hold a sufficient quantity of highly liquid assets to enable them to withstand a short-term (30-day) company-specific stress situation which coincides with a period of general market stress. During 2016, the Group's LCR fluctuated between 157% and 199%, which puts it significantly above the minimum statutory requirement.

Additional quantitative information relating to the LCR will be published in a separate disclosure report. This report will be available on the www.juliusbaer.com website from the end of April 2017.

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

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

Management of interest rate risks

One measure of interest rate risk can be provided by showing the impact of a positive change of 1% (+100 basis points) in the entire yield curve in the respective currency. The table below, broken down according to maturity bands and currencies, shows the results of such a scenario as at 31 December

2016. Negative values under this scenario reflect a potential drop in fair value within the respective maturity band; positive values reflect a potential increase in fair value. This risk measure is also used to carry out scenario analyses on a regular basis. As there are no material option structures in the

banking book, a negative change of 1% in the yield curves would result in scenario values of similar magnitude but with the opposite sign, though such outcomes are mitigated by the fact that the yield curves for the markets in which the Group carries out most of its activities are currently close to zero.

Interest-rate-sensitive positions

	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total CHF m
Interest sensitivity by time bands and 100 bp parallel increase						
CHF						
2016	3.4	-4.9	34.3	61.7	-44.5	49.9
2015	1.7	-5.3	28.3	52.2	-62.6	14.4
USD						
2016	12.0	-3.6	-4.7	-136.3	-1.4	-134.0
2015	14.4	-2.3	-3.2	-155.8	-4.7	-151.5
EUR						
2016	7.9	-2.2	-12.5	55.5	-1.8	46.9
2015	6.1	-2.3	-9.5	53.0	-3.6	43.7
Other						
2016	2.8	-1.7	-6.7	29.5	0.3	24.2
2015	2.4	-2.2	-0.8	22.7	0.1	22.1

In addition, the effect on interest earnings resulting from a parallel shift of 1% in the yield curve is measured. In this gap analysis, the interest-bearing assets and liabilities are offset within maturity bands. The impact of the yield curve shift on the residual exposure over the time horizon from the next repricing date to a point 12 months ahead is measured. Based on the assumptions described above, and further assuming that the Group took no mitigating action, the modelled effect on interest earnings would have been CHF -180.0 million at the end of 2016 (2015: CHF -128.9 million).

Hedging interest rate risks

The Group accepts deposits from clients at both floating and fixed rates and for various periods and either lends these funds on a collateralised basis or

invests them in high-quality assets. By consolidating the short-term money deposited by clients and lending it out at longer maturities, an effort is made to increase the interest margin. At the same time, sufficient liquid assets are held in order to be always able to meet all maturing obligations. In managing the associated interest rate risks, the Group applies fair value hedges for hedging a portion of the interest rate exposure by employing interest rate swaps. The market value of these swaps on 31 December 2016 amounted to a net CHF -61.1 million (2015: CHF -72.5 million). The fair value gain on the hedged mortgages attributable to the hedged interest rate risk amounts to CHF 58.0 million (2015: CHF 70.2 million).

The following table shows an analysis of the Group's financial assets and financial liabilities by remaining expected maturities as of the balance sheet date. The expected maturities are based on management estimates and may differ from the contractual

maturities. Balances are classified as on demand if the nature of the position concerned indicates that expected maturity modelling will not yield useful insights.

Remaining expected maturities of financial assets and liabilities

	On demand CHF m	Due within 3 months CHF m	Due within 3 to 12 months CHF m	Due within 12 months to 5 years CHF m	Due after 5 years CHF m	Total CHF m
Financial assets						
Cash	13,599.5	-	-	-	-	13,599.5
Due from banks	-	10,958.9	380.9	50.0	-	11,389.8
Loans	-	31,157.6	2,532.4	2,439.9	2,289.2	38,419.0
Trading assets	7,660.7	-	-	-	-	7,660.7
Derivative financial instruments	2,690.9	-	-	-	-	2,690.9
Financial assets designated at fair value	252.4	-	-	-	-	252.4
Financial investments available-for-sale	-	2,470.5	3,395.7	11,692.1	708.4	18,266.6
Accrued income	-	282.8	-	-	-	282.8
Total 31.12.2016	24,203.4	44,869.8	6,309.0	14,181.9	2,997.6	92,561.6
Total 31.12.2015	20,555.7	38,832.2	4,622.9	13,694.1	3,032.3	80,737.2
Financial liabilities						
Due to banks	-	10,076.8	-	-	-	10,076.8
Due to customers	-	67,351.5	143.7	-	-	67,495.2
Trading liabilities	159.0	-	-	-	-	159.0
Derivative financial instruments	2,285.3	-	-	-	-	2,285.3
Financial liabilities designated at fair value	871.1	3,960.5	2,078.5	1,163.5	370.9	8,444.4
Debt issued	0.2	78.6	-	-	1,134.7	1,213.5
Accrued expenses	-	187.7	-	-	-	187.7
Other liabilities ¹	-	-	21.3	19.9	-	41.2
Total 31.12.2016	3,315.6	81,655.1	2,243.5	1,183.4	1,505.6	89,861.9
Total 31.12.2015	3,342.9	70,486.9	1,426.7	929.9	1,443.8	77,605.8

¹ Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

The following table shows an analysis of the Group's financial liabilities by remaining contractual maturities as of the balance sheet date. Contrary to the balance sheet presentation, these amounts include the total of contractual undiscounted interest payments related to these financial liabilities. Liabilities without a stated maturity, i.e. that can

be called for repayment at any time, are classified as on demand. All derivative financial instruments held for trading are classified as on demand, as there are no single derivatives or classes of derivatives for which the contractual maturities are relevant for the timing of the total cash flows of the Group.

Remaining contractual maturities of financial liabilities

	On demand CHF m	Due within 3 months CHF m	Due within 3 to 12 months CHF m	Due within 12 months to 5 years CHF m	Due after 5 years CHF m	Total CHF m
Financial liabilities recognised on balance sheet						
Due to banks	9,771.6	304.8	-	0.6	-	10,076.9
Due to customers	61,412.7	5,661.1	278.3	147.1	-	67,499.1
Trading liabilities	159.0	-	-	-	-	159.0
Derivative financial instruments	2,213.5	-	0.6	24.9	46.3	2,285.3
Financial liabilities designated at fair value	871.1	3,986.7	2,125.9	1,174.3	370.9	8,528.9
Debt issued	0.2	92.0	40.1	119.8	1,134.7	1,386.8
Accrued expenses	-	187.7	-	-	-	187.7
Other liabilities ¹	-	-	21.3	19.9	-	41.2
Total 31.12.2016	74,428.0	10,232.2	2,466.1	1,486.6	1,551.9	90,164.9
Due to banks	3,915.2	756.9	-	0.3	-	4,672.4
Due to customers	59,991.8	4,598.7	194.0	0.2	-	64,784.8
Trading liabilities	190.8	-	-	-	-	190.8
Derivative financial instruments	2,318.9	-	-	16.9	55.6	2,391.4
Financial liabilities designated at fair value	760.6	1,093.2	1,260.0	927.9	291.2	4,333.0
Debt issued	0.1	28.4	77.1	114.4	1,152.6	1,372.6
Accrued expenses	-	154.4	-	-	-	154.4
Other liabilities ²	-	0.5	12.0	12.1	-	24.5
Total 31.12.2015	67,177.5	6,632.1	1,543.1	1,071.7	1,499.4	77,923.8
Financial liabilities not recognised on balance sheet						
Irrevocable commitments ³	788.8	14.2	2.7	7.5	-	813.3
Total 31.12.2016	788.8	14.2	2.7	7.5	-	813.3
Total 31.12.2015	754.9	22.2	43.5	3.2	1.0	824.9

¹ Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

² Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

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

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

OPERATIONAL RISK

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

Framework for the management of operational risk

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

The key components of this framework are described below:

- Organisational structure: the tasks, responsibilities and processes for managing operational risk, and the relevant escalation procedures relating thereto, are set out in a series of directives, guidelines and manuals.
- Willingness to assume risk and levels of risk tolerance: operational risk appetite and the underlying level of operational risk tolerance is determined by the Board of Directors and the Executive Board as part of their annual review of the overall risk landscape. The processes for monitoring risk appetite and the level of risk tolerance include directives, limits and defined levels of authority, which are also reflected in the Group's business strategy and personnel policy.
- Control system: the control environment which has been established to manage operational risk requires that activities are carried out in accordance with defined directives and guidelines, so that processes operate as specified. Under this approach, controls are integrated into business processes wherever possible. Key controls are carried out in a timely fashion and their results are monitored by Risk Management. In addition, the quality and completeness of certain key controls is subject to independent verification, which ensures that their specifications and effectiveness are assessed on a regular basis. In addition there are independent control functions in place that monitor certain specific operational risks.
- Register of operational risks: the individual legal entities maintain operational risk registers listing the operational risks which have been identified as inherent to their specific business activities and the measures which have been put in place to eliminate or reduce them. These operational risks are classified and evaluated according to a uniform, Group-wide risk taxonomy and a uniform quantitative risk-evaluation template charting potential risks and the probability of their occurrence.
- Record of operational risk events: Losses arising as a result of operational risk are recorded by Risk Management in a Group-wide database. Systematic evaluation of these events enables operational weaknesses to be identified so that appropriate measures can be taken to remedy them.

- Self evaluation of risks and of the quality of the control system: these self evaluations are carried out by the individual specialised areas and legal entities with the assistance of Risk Management. The process involves applying a uniform risk taxonomy to identify inherent operational risks and their causes, to evaluate the effectiveness of the controls and other risk-minimising measures in place and to determine the level of residual risk. The results of these self evaluations are incorporated into the Group-wide risk landscape which is presented to the Executive Board, the Chairman's & Risk Committee and the Audit Committee each year.
- Risk information consolidation process: the risk managers have unrestricted access to all the information they require to identify and evaluate operational risks in the areas for which they are responsible. This includes internal and external audit reports, data on operational losses, information from risk committees, quantitative risk indicators (Key Risk Indicators), control results, complaints from clients and other internal and external risk information. The resulting operational risk evaluation and the extent to which risk-minimising measures have been implemented are regularly reviewed and updated by the risk manager and those responsible for managing the business areas concerned. A further objective of these discussions is to identify potential new risks at an early stage and to determine possible initiatives to address them.
- Reporting to senior management: a number of formal risk reports are submitted to management and the Board of Directors. These reports incorporate the key insights and developments relating to operational risks, thus ensuring that timely and appropriate action can be taken in response to operational risk events and to any activities which exceed current levels of operational risk appetite.

Business Continuity Management

The objective of the Business Continuity Management (BCM) Programme is to establish and maintain the stability of the overall organisation in the event of massive disturbances to its operations and in crisis situations. The programme aims to protect the Group's reputation and to minimise any

financial loss to clients, the Group and its employees. To that end, Julius Baer has formulated a BCM strategy and implemented a set of Group-wide BCM directives and guidelines, which assign BCM tasks and responsibilities across the Group and define the structure of the crisis management organisation. These directives and guidelines also define the processes for planning, analysing and assessing recovery and continuity measures, and the procedures for communication and internal training.

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

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

Legal and compliance risk

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

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

Measures aimed at minimising legal and regulatory or compliance risks include raising staff awareness of legal and regulatory issues through training and

internal directives and controls to ensure adherence to the legal and regulatory requirements within which the Group operates.

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

Personnel risk

Personnel risks such as bottleneck risk, motivational risk, adaptation risk and departure risk will continue to affect the Group in the years ahead. These individual types of risk interact with each other in a number of ways. Continuous change, the increasing burdens placed on managers and staff alike as a result of day-to-day business taking place alongside major projects, the relatively inclement economic outlook and current demographic trends are all factors which can be expected to affect a number of different risk areas in the next few years. Maintaining departure risk at modest levels requires work-structure models for staff that are flexible with regard to both time and location. These need to be complemented by modular compensation concepts. The bottleneck risk resulting from current demographic trends and political restrictions placed on migration can be addressed through attractive terms of employment, a contemporary and competitive working environment, education and training

tailored to individual job functions and strategically oriented staff-development and talent-management concepts. Motivational and adaptation risks are closely interrelated. They reflect the ongoing changes which are now inherent in day-to-day operations. In order to take appropriate, targeted action to address these risks, employee surveys and regular dialogue with employees are important. The essential point is for people to understand why change is necessary. They also need to be fairly remunerated for the substantial amount of work they are willing to carry out. Dealing with these issues appropriately is something Julius Baer regards as an important management task, and it is one to which the Group accords commensurate priority.

Insurance

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

REPUTATIONAL RISK

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

MANAGEMENT OF CAPITAL INCLUDING REGULATORY CAPITAL

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

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

In 2016, the scope of consolidation used for the calculation of capital adequacy is identical to that applied for accounting purposes. Note 26A provides an overview of the Group's consolidated companies.

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

The effects of Basel III and of the changes to IAS 19 with regard to pension fund liabilities are gradually being incorporated into the Group's calculations of risk-weighted assets and eligible equity capital during the period from 2014 to 2018. Furthermore, recognition of tier 1 and tier 2 instruments which are not compliant with Basel III requirements are gradually being discontinued between 2013 and 2022.

The Basel III international standard approach requires CET1 equivalent to at least 4.5% of risk-weighted assets, plus a CET1 capital buffer of 2.5%, plus 1.5% of additional tier 1 (AT1) capital (or better-quality capital), plus 2% of supplementary tier 2 capital (or better-quality capital). In aggregate, this amounts to an overall capital requirement of at least 10.5% of risk-weighted assets. FINMA minimum capital requirements for the Group are 7.8% for CET1, 1.8% for AT1 and 2.4% for tier 2, which puts its overall minimum capital requirement at 12% of risk-weighted assets. At present, the Group is also required to hold an additional anti-cyclical CET1 capital buffer for mortgages on residential properties in Switzerland which adds a further 0.2% to its minimum capital requirement of 12% of risk-weighted assets. The capital held by the Group at 31 December 2016 and at 31 December 2015 was sufficient to meet the relevant BIS and FINMA requirements.

Capital ratios

	31.12.2016 Basel III phase-in ¹ CHF m	31.12.2015 Basel III phase-in ¹ CHF m
Risk-weighted positions		
Credit risk	14,902.8	13,775.4
Non-counterparty-related risk	506.7	510.0
Market risk	957.7	776.5
Operational risk	4,634.6	4,232.9
Total	21,001.8	19,294.8
Eligible capital		
CET1 capital ²	3,444.2	3,534.2
Tier 1 capital ²	3,597.0	3,534.2
of which hybrid tier 1 instruments ³	1,134.7	908.0
Tier 2 capital	70.2	214.2
of which lower tier 2 instruments	-	171.4 ⁴
Total capital	3,667.2	3,748.4
CET1 capital ratio	16.4%	18.3%
Tier 1 capital ratio	17.1%	18.3%
Total capital ratio	17.5%	19.4%

¹ The Basel III effects, but also the effects of IAS 19 revised relating to pension liabilities, will be phased in between 2014 and 2018 for the calculation of the eligible capital. All listed capital instruments of Julius Baer are fully compliant with the Basel III guidelines as at the end of 2016.

² During the phase-in period the amount of intangibles which has to be deducted directly from CET1 increases proportionally over time and the remaining amount of intangibles which is allowed to be deducted from additional tier 1 capital decreases respectively. As soon as the remaining amount of intangibles is lower than the additional tier 1 capital the CET1 capital will be lower than the tier 1 capital.

³ The hybrid tier 1 instruments are tier 1 bonds issued by Julius Baer Group Ltd. in 2012, 2014, 2015 and 2016.

⁴ Julius Baer Group Ltd. exercised its call option for an early repayment in full at par value plus accrued interests on the reset date of 23 December 2016 and redeemed the 4.50% lower tier 2 subordinated bonds issued in 2011 with final maturity in 2021.

Further details regarding tier 1 and tier 2 instruments can be found in the Regulatory Disclosures section of www.juliusbaer.com. Please also refer to debt issued, Note 16.

The principal adjustment to the Group's total equity under IFRS for the purpose of determining total eligible capital is the deduction of intangible assets. These and other capital components are shown in the following table. In addition to the table below, a separate Basel III pillar 3 report has been prepared

which shows a full reconciliation between all components of the Group's eligible regulatory capital and its reported IFRS balance sheet as at 31 December 2016. This report, which is published in the Regulatory Disclosures section of www.juliusbaer.com, has been prepared in accordance with the FINMA regulations governing the disclosure of the composition of eligible regulatory capital (information will be available at the end of April 2017).

Capital components

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Gross common equity tier 1 capital ¹	5,339.7	4,939.4
of which non-controlling interests	9.4	3.8
Effects of IAS19 revised relating to pension liabilities	81.0	132.8
Goodwill and other intangible assets	-1,670.8	-1,250.9
Other deductions	-305.7	-287.1
Common equity tier 1 capital	3,444.2	3,534.2
Tier 1 capital instruments	1,134.7	908.0
of which preferred securities (phase-out capital instrument)	-	-
of which tier 1 bond (Basel III-compliant capital instrument)	1,134.7	908.0
Goodwill and intangible assets, offset against tier 1 capital instruments	-981.9	-908.0
Additional tier 1 capital	152.8	-
Tier 1 capital	3,597.0	3,534.2
Tier 2 capital	70.2	214.2
of which lower tier 2 capital (phase-out capital instrument)	-	171.4
of which other tier 2 capital	70.2	42.8
Total capital	3,667.2	3,748.4

¹ Phase-in of 40% of non-controlling interests of CHF 9.4 million (31.12.2015: phase-in of 60% of CHF 6.4 million)

Required capital (see table below) for credit risks arising from amounts due from banks, loans, financial investments and derivative financial instruments accounts for more than 71% (2015: 71%) of the total required capital. Capital required

for non-counterparty risk (2016: 2%; 2015: 3%) and market risk (2016: 5%; 2015: 4%) is of minor significance. The capital required to cover operational risk accounts for more than 22% of total required capital (2015: 22%).

Minimum capital requirement

	31.12.2016 Basel III phase-in CHF m	31.12.2015 Basel III phase-in CHF m
Credit risk	1,192.2	1,102.0
of which for equity securities in the banking book	9.8	4.4
Non-counterparty-related risk	40.5	40.8
Market risk	76.6	62.1
Operational risk	370.8	338.7
Total	1,680.1	1,543.6

Leverage ratio

In November 2014, FINMA published a new 'Leverage Ratio' circular, which sets out the rules for calculating the leverage ratio in Switzerland. In addition to the existing requirement for banks to hold eligible capital proportionate to their risk-weighted assets, the circular defines the leverage ratio as a new, non-risk-based metric. The leverage ratio is defined as the ratio between eligible (tier 1) core capital and total exposure. Total exposure encompasses all balance-sheet and off-balance-sheet positions, and the new 'Leverage Ratio' circular defines how these are to be calculated. The Basel Committee on Banking Supervision will define the requirements which it will place on the leverage ratio from 2018 after the conclusion of an observation

period. That period will also be used to clarify a number of currently open questions regarding the calculation of total exposure. The indicative leverage ratio requirement, which is not yet binding at this stage, is three percent. This may however be subject to change once the observation period has concluded.

Basel III regulations also require publication of the leverage ratio from 2015 onwards. This requirement is contained in the revised version of the FINMA 'Disclosure – Banks' circular, which came into effect on 1 January 2015. Additional qualitative and quantitative information relating to the leverage ratio will be published in a separate disclosure report. This report will be available on the www.juliusbaer.com website from the end of April 2017.

INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

1 NET INTEREST AND DIVIDEND INCOME

	2016 CHF m	2015 CHF m	Change %
Interest income on amounts due from banks	41.1	38.3	7.2
Interest income on loans	522.2	444.5	17.5
Interest income on financial investments available-for-sale	252.3	191.4	31.8
Total interest income using the effective interest method	815.6	674.3	21.0
Dividend income on financial investments available-for-sale	7.3	10.3	-29.0
Interest income on trading portfolios	29.1	23.6	23.1
Dividend income on trading portfolios	191.9	139.1	38.0
Total interest and dividend income	1,043.9	847.2	23.2
Interest expense on amounts due to banks	13.9	8.7	59.9
Interest expense on amounts due to customers	51.2	49.5	3.5
Interest expense on debt issued	64.8	50.7	27.8
Interest expense on financial assets ¹	36.8	26.8	37.2
Total interest expense using the effective interest method	166.8	135.7	22.8
Total	877.1	711.5	23.3

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

2 NET COMMISSION AND FEE INCOME

	2016 CHF m	2015 CHF m	Change %
Advisory and management commissions	950.5	857.8	10.8
Investment fund fees	179.0	227.3	-21.2
Fiduciary commissions	8.0	6.4	24.3
Total commission and fee income from asset management	1,137.6	1,091.5	4.2
Brokerage commissions and income from securities underwriting	538.8	551.6	-2.3
Commission income from credit-related activities	7.7	6.7	14.3
Commission and fee income on other services	87.1	82.3	5.8
Total commission and fee income	1,771.1	1,732.1	2.3
Commission expense	206.2	209.7	-1.7
Total	1,564.9	1,522.4	2.8

3 NET TRADING INCOME

	2016 CHF m	2015 CHF m	Change %
Debt instruments	50.1	30.0	67.1
Equity instruments	-166.6	-104.0	-60.2
Foreign exchange	449.0	509.8	-11.9
Total	332.5	435.8	-23.7

4 OTHER ORDINARY RESULTS

	2016 CHF m	2015 CHF m	Change %
Net gains/(losses) from disposal of financial investments available-for-sale	4.0	0.9	358.4
Impairment on financial investments available-for-sale	-1.6	-7.0	-
Income from investments in associates	40.4	5.9	584.0
Real estate income	5.5	5.3	4.1
Other ordinary income	30.4	20.2	50.7
Other ordinary expenses	0.8	0.5	63.5
Total	77.9	24.7	215.1

5 PERSONNEL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Salaries and bonuses	1,106.6	988.8	11.9
Contributions to staff pension plans (defined benefits)	13.2¹	69.6	-81.0
Contributions to staff pension plans (defined contributions)	27.4	27.0	1.5
Other social security contributions	89.6	76.1	17.7
Share-based payments	70.8	60.0	18.0
Other personnel expenses	28.2	42.6	-33.7
Reimbursement of personnel expenses	-	-27.9 ²	-
Total	1,335.9	1,236.1	8.1

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

² Represents a reimbursement from Bank of America in the amount of CHF 27.9 million for certain payments related to retention plans in the acquisition of Merrill Lynch's International Wealth Management (IWM).

6 GENERAL EXPENSES

	2016 CHF m	2015 CHF m	Change %
Occupancy expense	90.1	83.8	7.5
IT and other equipment expense	72.8	64.6	12.6
Information, communication and advertising expense	173.0	162.2	6.7
Service expense, fees and taxes	239.8	207.7	15.5
Valuation allowances, provisions and losses	40.4	574.6 ¹	-
Other general expenses	7.1	7.3	-2.8
Total	623.2	1,100.2	-43.4

¹ Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business (see Note 18).

7 INCOME TAXES

	2016 CHF m	2015 CHF m	Change %
Income tax on profit before taxes (expected tax expense)	165.6	30.5	442.2
Effect of tax rate differences in foreign jurisdictions	-6.2	-20.4	-
Effect of domestic tax rate differences	24.2	1.6	-
Income subject to a reduced tax rate	-81.5	-43.4	-
Effect of utilisation of prior-year losses	-0.8	-2.2	-
Effect from not capitalised losses	16.3	7.8	-
Adjustments related to prior years	-0.2	-8.3	-
Write-off of deferred tax assets	-	0.2	-
Non-deductible expenses	12.9	51.5	-
Other	0.2	-1.0	-
Actual income tax expense	130.4	16.3	-

The tax rate of Switzerland of 22% (2015: 22%) was applied as the basis for the above expected tax expenses. This tax rate reflects the Swiss weighted average rate from the operational companies excluding Julius Baer Group Ltd.

Unrecognised accumulated loss carryforwards in the amount of CHF 281.1 million (2015: CHF 242.9 million) exist in the Group that do not expire.

CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2016 (AUDITED)
INFORMATION ON THE CONSOLIDATED INCOME STATEMENT

	2016 <i>CHF m</i>	2015 <i>CHF m</i>	Change %
Domestic income taxes	108.1	2.8	-
Foreign income taxes	22.4	13.5	65.5
Total	130.4	16.3	701.4

Current income taxes	122.0	76.5	59.4
Deferred income taxes	8.4	-60.3	-
Total	130.4	16.3	701.4

Tax effects relating to components of other comprehensive income

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

	Before-tax amount <i>CHF m</i>	Tax (expense)/ benefit <i>CHF m</i>	2015 Net-of-tax amount <i>CHF m</i>
Items that may be reclassified to the income statement			
Net unrealised gains/(losses) on financial investments available-for-sale	-97.4	11.6	-85.8
Net realised (gains)/losses on financial investments available-for-sale reclassified to the income statement	0.3	0.0	0.3
Translation differences	-79.6	-	-79.6
Realised (gains)/losses on translation differences reclassified to the income statement	0.2	-	0.2
Items that will not be reclassified to the income statement			
Remeasurement of defined benefit obligation	-126.1	27.7	-98.4
Other comprehensive income	-302.6	39.4	-263.2

8 EARNINGS PER SHARE AND SHARES OUTSTANDING

	2016	2015
Basic earnings per share		
Net profit (CHF m)	619.4	121.2
Weighted average number of shares outstanding	217,404,899	218,613,533
Basic earnings per share (CHF)	2.85	0.55

Diluted earnings per share		
Net profit (CHF m)	619.4	121.2
Less (profit)/loss on equity derivative contracts (CHF m)	-1.5	-0.1
Net profit for diluted earnings per share (CHF m)	617.9	121.1
Weighted average number of shares outstanding	217,404,899	218,613,533
Dilution effect	-48,478	-7,076
Weighted average number of shares outstanding for diluted earnings per share	217,356,421	218,606,457
Diluted earnings per share (CHF)	2.84	0.55

	31.12.2016	31.12.2015
Shares outstanding		
Total shares issued at the beginning of the year	223,809,448	223,809,448
Less treasury shares	6,346,886	5,269,422
Total	217,462,562	218,540,026

INFORMATION ON THE CONSOLIDATED BALANCE SHEET

9A DUE FROM BANKS

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Due from banks	11,391.0	6,903.4	4,487.7
Allowance for credit losses	-1.3	-2.3	1.0
Total	11,389.8	6,901.1	4,488.7

Due from banks by type of collateral:

Securities collateral	387.8	1,024.6	-636.8
Without collateral	11,001.9	5,876.5	5,125.4
Total	11,389.8	6,901.1	4,488.7

9B LOANS

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Loans	29,173.2	27,913.7	1,259.6
Mortgages	9,317.6	8,549.9	767.7
Subtotal	38,490.8	36,463.5	2,027.3
Allowance for credit losses	-71.8	-82.6	10.8
Total	38,419.0	36,380.9	2,038.1

Loans by type of collateral:

Securities collateral	22,964.8	20,171.5	2,793.4
Mortgage collateral	9,329.8	8,640.2	689.6
Other collateral (mainly cash and fiduciary deposits)	6,053.6	7,450.7	-1,397.1
Without collateral	70.8	118.6	-47.8
Total	38,419.0	36,380.9	2,038.1

9C ALLOWANCE FOR CREDIT LOSSES

	Specific CHF m	2016 Collective CHF m	Specific CHF m	2015 Collective CHF m
Balance at the beginning of the year	58.5	26.3	29.0	22.8
Write-offs	-27.3	-	-2.5	-
Increase in allowance for credit losses	15.6	3.9	35.7	6.2
Decrease in allowance for credit losses	-0.1	-4.4	-3.6	-2.5
Translation differences and other adjustments	0.4	-0.0	-0.1	-0.1
Balance at the end of the year	47.2	25.9	58.5	26.3

9D IMPAIRED LOANS

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Gross loans	83.3	72.2	11.1
Specific allowance for credit losses	-47.2	-58.5	11.3
Net loans	36.2	13.7	22.5

10 TRADING ASSETS AND LIABILITIES

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>	Change <i>CHF m</i>
Trading assets			
Debt instruments	1,415.0	1,155.7	259.3
<i>of which quoted</i>	1,337.4	1,097.5	240.0
<i>of which unquoted</i>	77.5	58.2	19.3
Equity instruments	5,846.9	5,802.0	44.9
<i>of which quoted</i>	5,466.0	5,389.5	76.5
<i>of which unquoted</i>	380.8	412.5	-31.7
Precious metals (physical)	398.8	2,026.3	-1,627.5
Total	7,660.7	8,984.0	-1,323.3
 Trading liabilities			
Short positions – debt	48.0	117.2	-69.3
<i>of which quoted</i>	44.7	116.2	-71.5
<i>of which unquoted</i>	3.2	1.0	2.3
Short positions – equity	111.0	73.6	37.4
<i>of which quoted</i>	96.0	54.0	41.9
<i>of which unquoted</i>	15.0	19.6	-4.5
Total	159.0	190.8	-31.8

11A FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Money market instruments	3,785.0	2,298.1	1,487.0
Government and agency bonds	3,477.0	3,560.1	-83.1
Financial institution bonds	6,295.5	6,187.1	108.4
Corporate bonds	4,500.0	4,387.7	112.4
Other bonds	43.5	42.3	1.2
Debt instruments	14,316.0	14,177.2	138.8
<i>of which quoted</i>	13,259.3	13,270.8	48.5
<i>of which unquoted</i>	1,056.8	966.4	90.3
Equity instruments	165.5	97.2	68.3
<i>of which quoted</i>	26.0	15.7	10.3
<i>of which unquoted</i>	139.5	81.5	58.0
Total	18,266.6	16,572.5	1,694.1

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

			31.12.2016 CHF m	31.12.2015 CHF m	Change CHF m
Debt instruments by credit rating classes	Fitch, S&P	Moody's			
1–2	AAA – AA-	Aaa – Aa3	9,491.3	9,122.4	368.9
3	A+ – A-	A1 – A3	4,458.7	4,662.0	-203.3
4	BBB+ – BBB-	Baa1 – Baa3	266.7	286.6	-19.8
5–7	BB+ – CCC-	Ba1 – Caa3	52.1	42.9	9.3
8–9	CC – D	Ca – C	-	4.3	-4.3
Unrated			47.2	59.1	-12.0
Total			14,316.0	14,177.2	138.8

12 GOODWILL, INTANGIBLE ASSETS AND PROPERTY AND EQUIPMENT

	Goodwill CHF m	Customer relationships CHF m	Software CHF m	Total intangible assets CHF m	Bank premises CHF m	Other property and equipment CHF m	Total property and equipment CHF m
Historical cost							
Balance on 01.01.2015	1,680.3	1,287.7	479.0	3,446.9	403.2	193.2	596.4
Translation differences	-48.7	-20.0	-1.4	-70.1	-	-1.9	-1.9
Additions	-	-	81.4	81.4	4.1	20.4	24.5
Additions from business combinations	80.8	42.3	0.0	123.1	-	2.3	2.3
Disposals/transfers ¹	-	-	1.8	1.8	-	6.8	6.8
Balance on 31.12.2015	1,712.5	1,309.9	557.1	3,579.4	407.3	207.2	614.5
Translation differences	21.8	7.7	-0.0	29.5	-	-1.3	-1.3
Additions	-	-	139.1	139.1	4.2	29.6	33.8
Additions from business combinations	337.1	104.9	12.3	454.3	-	5.4	5.4
Disposals/transfers ¹	-	-	18.7	18.7	-	10.5	10.5
Balance on 31.12.2016	2,071.3	1,422.5	689.8	4,183.6	411.5	230.5	642.0
Depreciation, amortisation and impairment							
Balance on 01.01.2015	-	810.6	272.4	1,083.0	81.8	131.9	213.7
Translation differences	-	-2.7	-0.5	-3.1	-	-0.6	-0.6
Charge for the period	-	126.2	58.6 ²	184.8	9.5	25.0 ²	34.5
Disposals/transfers ¹	-	-	1.6	1.6	-	6.4	6.4
Balance on 31.12.2015	-	934.0	329.0	1,263.1	91.3	150.0	241.3
Translation differences	-	1.8	-0.1	1.7	-	-0.4	-0.4
Charge for the period	-	68.5	34.6 ³	103.1	11.5	26.1 ³	37.6
Disposals/transfers ¹	-	-	18.6	18.6	-	10.3	10.3
Balance on 31.12.2016	-	1,004.4	345.0	1,349.4	102.8	165.4	268.2
Carrying value							
Balance on 31.12.2015	1,712.5	375.9	228.0	2,316.4	316.0	57.2	373.2
Balance on 31.12.2016	2,071.3	418.1	344.8	2,834.3	308.7	65.1	373.8

¹ Includes also derecognition of fully depreciated and amortised assets

² Includes impairment of CHF 2.9 million related to software and other property and equipment not used anymore

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

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

	Balance on 01.01.2016 CHF m	Additions CHF m	Disposals CHF m	Translation differences CHF m	Balance on 31.12.2016 CHF m
Goodwill					
Julius Baer Private Banking	1,614.6	19.8	-	-	1,634.4
GPS	97.8	-	-	21.8	119.6
Kairos	-	317.3	-	-	317.3
Total	1,712.5	337.1	-	21.8	2,071.3

Goodwill – Impairment testing

To identify any indications of impairment on goodwill, the recoverable amount based on the value in use is determined for the respective cash-generating unit (i.e. for the smallest identifiable group of assets that generates cash inflows independently from other assets) and is subsequently compared to the carrying amount of that unit. Within the Group, cash inflows are not attributable to either any dimension (e.g. geographical areas, booking centres, clients or products) or group of assets. In addition, management makes operating decisions based on information on the Group level (see also Note 20 regarding the determination of the segments). Therefore, the goodwill is allocated to and tested on the level of the Group, except for GPS and Kairos, which are tested on a stand-alone basis. GPS and Kairos are each regarded a cash-generating unit as their cash inflows are generated independently from other assets.

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

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

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

To each of these applicable key parameters, reasonably expected growth assumptions are applied in order to calculate the projected cash flows. However, the 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, but the Group cannot exclude short-term market disruptions. 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 which are necessary to maintain the level of economic benefits expected to arise from the underlying assets in their current condition. The resulting free cash flows are discounted to present value, using a pre-tax discount rate of 8.2% (2015: 8.9%) for Julius Baer private banking. For GPS, the pre-tax discount rate used is 21.6% (2015: 21.8%), for Kairos, the pre-tax discount rate used is 15.8%.

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

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. forecast/planned key assumptions, as well as future changes of any of the key assumptions based on a future different assessment of the development of

relevant markets, and/or the businesses, may occur. Such deviations may result from changes in products and client mix, profitability, required types and intensity of personnel resources, general and company-specific personnel cost development and/or changes in the implementation of known or addition of new business initiatives and/or other internal and/or external factors. These changes may cause the value of the business to alter and therefore either increase or reduce the difference between the carrying value in the balance sheet and the unit's recoverable amount or may even lead to a partial impairment of goodwill.

Management has performed sensitivity analyses on the discount rates and growth rates applied to a forecast period. Under these scenarios, the reasonably possible changes in key assumptions would not result in the carrying amount exceeding the recoverable amount. Therefore, no impairment resulted from these analyses. However, there remains a degree of uncertainty involved in the determination of these assumptions due to the general market environment.

13 OPERATING LEASE COMMITMENTS

	31.12.2016 <i>CHF m</i>	31.12.2015 <i>CHF m</i>
Not later than one year	67.0	62.6
Later than one year and not later than five years	180.6	168.9
Later than five years	119.4	78.5
Subtotal	366.9	310.0
Less sublease rentals received under non-cancellable leases	23.0	23.3
Total	343.9	286.6

Expenses for operating leases in the gross amount of CHF 67.3 million are included in operating expenses for the 2016 financial year (2015: CHF 59.7 million).

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

	Carrying value <i>CHF m</i>	31.12.2016 Effective commitment <i>CHF m</i>	Carrying value <i>CHF m</i>	31.12.2015 Effective commitment <i>CHF m</i>
Securities	976.2	976.2	1,477.4	1,465.8
Other	16.3	7.5	16.3	14.4
Total	992.4	983.6	1,493.7	1,480.1

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

15 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

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

The table above indicates the maturities of the structured debt issues of Bank Julius Baer & Co. Ltd. with fixed interest rate coupons ranging from 0.1% up to 76.8%. The high and low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate generally does not reflect the effective interest rate paid to service the debt after the embedded derivative has been separated.

As the redemption amount on the structured debt issues is linked to changes in stock prices, indices, currencies or other assets, the Group cannot

determine the difference between the carrying amount and the amount the Group would be contractually required to pay at maturity to the holder of the structured debt issues.

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

CONSOLIDATED FINANCIAL STATEMENTS JULIUS BAER GROUP 2016 (AUDITED)
INFORMATION ON THE CONSOLIDATED BALANCE SHEET

16 DEBT ISSUED

	31.12.2016 CHF m	31.12.2015 CHF m
Money market instruments	78.8	0.1
Bonds	1,134.7	1,152.6
Total	1,213.5	1,152.7

Bonds

Issuer/Year of issue	Stated interest rate %		Currency	Notional amount m	31.12.2016 Total CHF m	31.12.2015 Total CHF m
Julius Baer Group Ltd.						
2011 ¹	4.50	Lower tier 2 bond	CHF	250.0	-	244.6
Julius Baer Group Ltd.						
2012 ²	5.375	Perpetual tier 1 subordinated bond	CHF	250.0	248.7	249.3
Julius Baer Group Ltd.						
2014 ³	4.25	Perpetual tier 1 subordinated bond	CHF	350.0	346.7	343.9
Julius Baer Group Ltd.						
2015 ⁴	5.90	Perpetual tier 1 subordinated bond	SGD	450.0	318.6	314.7
Julius Baer Group Ltd.						
2016 ⁵	5.75	Perpetual tier 1 subordinated bond	SGD	325.0	220.6	-
Total					1,134.7	1,152.6

¹ Own bonds of CHF 2.9 million were offset with bonds outstanding in 2015.

The effective interest rate amounts to 4.89%.

² Own bonds of CHF 1.0 million are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 5.59%.

³ Own bonds of CHF 0.1 million are offset with bonds outstanding (2015: CHF 2.0 million).

The effective interest rate amounts to 4.41%.

⁴ No own bonds are offset with bonds outstanding (2015: none).

The effective interest rate amounts to 6.128%.

⁵ No own bonds are offset with bonds outstanding.

The effective interest rate amounts to 5.951%.

Lower tier 2 capital

Lower tier 2 capital consists of subordinated unsecured bonds ('bonds'), fully paid up and listed on the SIX Swiss Exchange. The bonds were issued by Julius Baer Group Ltd. (the 'Issuer') in December 2011 in the amount of CHF 250 million. From 1 January 2013 onwards, the proportion of the issued lower tier 2 capital which may be allocated, in the form of complementary (tier 2) capital, towards meeting the Group's capital adequacy requirements is reduced by 10% each year. These tier 2 bonds 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 the issue date (23 December 2011) to 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 the reset date and ending on the maturity date (23 December 2021) a fixed rate of interest each year equal to the sum of the benchmark rate (i.e. 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 a fixed margin of 3.815%. The interest is payable annually, in arrears and on a 30/360-day basis, on 23 December (the 'interest payment date'). 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 lower tier 2 capital was repaid on 23 December 2016 at nominal value plus accrued interest.

Perpetual tier 1 subordinated bonds

The maturities of the perpetual tier 1 subordinated bonds issued by Julius Baer Group Ltd. are essentially perpetual. These bonds are unsecured, subordinate to all borrowings (with the exception of the remainder of the tier 1 capital), fully paid up, capable of sustaining losses and devoid of any voting rights. The bonds can first be redeemed, at the Issuer's discretion, five to six years after their

issue date, and at yearly intervals thereafter, provided the regulator approves such redemption. In addition, the bonds may also be redeemed upon a Regulatory Event or Tax Event, as described in the prospectus. In the case of a Viability Event occurring, i.e. at a point in time where there is a threat of insolvency ('Point of non-viability' or 'PONV'), as described in Article 29 of the Capital Adequacy Ordinance of the Swiss Financial Market Supervisory Authority FINMA (CAO), all monies (including par value and any interest) due on the bonds will automatically cease to be payable and the bonds will be completely written off (i.e. their value will be written down to zero). Should a Trigger Event occur – i.e. should tier 1 common equity (under Basel III) fall below 5.125% (2012 and 2014 issues) or 7.0% (2015 and 2016 issues) – the value of the bonds will be written down to ensure that the Write-Down Threshold Ratio which originally triggered the event is restored to a level equal to or exceeding its trigger level. Here, too, in a worst-case scenario, all monies due on the bonds will cease to be payable in their entirety. In the event of the monies payable on the bonds ceasing to be payable either in part or in full, no subsequent increase in the value of the bonds is envisaged or permitted. From the issue date to the reset date the bonds will pay interest at a fixed rate. Thereafter, the interest payable on the bonds will be refixed for the next five years at a rate equal to the sum of the benchmark rate and a margin. Interest on the bonds is payable, in arrears on a 30/360-day basis, until the bonds have either been redeemed or fully written off. Interest payments on the bonds are prohibited in the event of this being ordered by the regulator (FINMA) or should there be insufficient retained earnings on the balance sheet of Julius Baer Group Ltd. to finance the payment of interest on tier 1 capital and to make any distributions already planned in respect of the previous financial year. Once suspended, any interest payments will permanently cease to be payable. Such interest payments are not cumulative, nor will they be paid at any future date. In the event of interest payments on the bonds being suspended, the Board of Directors of Julius Baer Group Ltd. will not be permitted to recommend any dividend payments to the Annual General Meeting until such time as interest payments on the bonds are resumed. Moreover, in the event of interest payments on the

bonds being suspended, Julius Baer Group Ltd. will not repurchase any of its own shares, neither directly nor indirectly.

2012 issue

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

2014 issue

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

2015 issue

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

2016 issue

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

17A DEFERRED TAX ASSETS

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	23.8	15.3
Income statement – credit	4.1	8.7
Income statement – charge	-3.6	-1.0
Acquisition of subsidiaries	5.2	0.1
Recognised directly in OCI	0.3	1.1
Translation differences and other adjustments	-1.1	-0.3
Balance at the end of the year	28.8	23.8

The components of deferred tax assets are as follows:

Operating loss carryforwards	21.6	18.9
Employee compensation and benefits	4.0	4.4
Financial investments available-for-sale	1.4	-
Property and equipment	0.3	0.1
Valuation adjustments on loans	1.5	0.5
Total	28.8	23.8

17B DEFERRED TAX LIABILITIES

	31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year	41.6	137.9
Income statement – charge	13.1	1.5
Income statement – credit	-4.1	-54.1
Acquisition of subsidiaries	9.1	0.0
Recognised directly in OCI	16.1	-38.3
Translation differences and other adjustments	2.1	-5.4
Balance at the end of the year	77.8	41.6

The components of deferred tax liabilities¹ are as follows:

Provisions	1.7	1.4
Property and equipment	15.0	15.4
Financial investments available-for-sale	24.9	19.6
Intangible assets	49.6	47.7
Other	14.1	11.6
Deferred tax liability before set-off	105.3	95.7
Offset of pension liability taxes	-27.5	-54.1
Total	77.8	41.6

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

18 PROVISIONS

	Legal risks CHF m	Other CHF m	2016 Total CHF m	2015 Total CHF m
Balance at the beginning of the year	571.9	3.2	575.2	89.5
Utilised during the year	-563.6	-1.2	-564.8	-65.6
Provisions made during the year	19.3	0.9	20.1	534.1 ¹
Provisions reversed during the year	-5.2	-0.1	-5.3	-7.5
Acquisition of subsidiaries	1.2	-	1.2	0.4
Translation differences	-3.4	-	-3.4	24.2
Balance at the end of the year	20.2	2.8	23.0	575.2

¹ Including the provision in the amount of USD 547.25 million related to the agreement in principle with the US Attorney's Office for the Southern District of New York with respect to a resolution regarding Julius Baer's legacy US cross-border business.

Maturity of provisions

Up to one year	10.6	0.5	11.1	553.7
Over one year	9.5	2.3	11.8	21.5

Introduction

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

Non-compliance with regulatory requirements may result in regulatory authorities taking enforcement action or initiating criminal proceedings against the Group and its employees. Possible sanctions could include the revocation of licences to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of the Group's business organisations or their key personnel and the imposition of fines and censures on companies and employees. Regulators in certain markets may determine that industry practices, e.g. regarding the provision of services to clients, are or have become inconsistent with their interpretations of existing local laws and regulations.

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

together with other circumstances materially adversely affect the Group's business, results of operations, financial condition and prospects.

Legal proceedings/contingent liabilities

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

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

In rare cases in which the amount cannot be estimated reliably due to the early stage of the proceedings, the complexity of the proceedings and/or other factors, no provision is recognised but the case is disclosed as a contingent liability as of

31 December 2016. The contingent liabilities might have a material effect on the Group or for other reasons might be of interest for investors and other stakeholders.

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

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

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

applicable and the documentation as well as the impact of respective waivers and the communicated bandwidths having been introduced some years ago, and implemented appropriate measures to address the matter.

Bank Julius Baer & Co. Ltd. is confronted with a claim by the liquidator of a foreign corporation arguing that the Bank did not prevent two of its clients from embezzling assets of the foreign corporation. In this context, the liquidator in 2013 presented a draft complaint for an amount of EUR 12 million (plus accrued interest from 2009) and filed a payment order ('Betreibungsbegehren') against the Bank in the amount of CHF 422 million (plus accrued interest from 2009). In June 2014, the liquidator presented another amended draft complaint for an amount of EUR 290 million (plus accrued interest as of September 2009). The Bank has formally repelled the payment order and is contesting the claim whilst taking appropriate measures to defend its interests.

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

In September 2014, the Bundesanstalt für vereinigungsbedingte Sonderaufgaben ('BvS') initiated legal proceedings in Zurich against Bank Julius Baer & Co. Ltd., claiming approximately CHF 97 million plus accrued interests since 1994. BvS

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

In the context of an investigation against a former client regarding alleged participation in an environmental certificate trading related tax fraud in France, a formal procedure ('mise en examen') into suspected lack of due diligence in financial transactions has been initiated against Bank Julius Baer & Co. Ltd. in June 2014. In October 2014, as a precautionary measure, the Bank made the required security deposit in the amount of EUR 3.75 million with the competent French court. The Bank is cooperating with the French authorities within the confines of applicable laws to clarify the situation and to protect its interests.

In April 2015, Bank Julius Baer & Co. Ltd. was served with 62 claims in Geneva totalling approximately CHF 20 million plus accrued interest. The claimants, being part of a larger group of former clients of an external asset manager claiming damages in a total amount of approximately CHF 40 million, argue lack of due diligence on the part of the Bank in the context of the late external asset manager allegedly having used his personal account and company account with the Bank for flow-through client transactions and pooling of client funds. On 16 October 2015, such claims have been formalised by 51 out of the 62 claimants, claiming a total amount of CHF 11.7 million plus accrued interest. In October 2016, the Bank was served with another claim by additional 15 claimants, claiming a total amount of CHF 4.5 million plus accrued interest. The Bank is contesting the claim and has taken appropriate measures to defend its interests.

Bank Julius Baer & Co. Ltd. is confronted with a claim by a former client arguing that the Bank initiated transactions without appropriate authorisations and that the Bank has not adhered to its duties of care, trust, information and warnings. In April 2015, the client presented a complaint for an amount of USD 70 million (plus accrued interest) and BRL 24 million. The Bank is contesting the claim whilst taking appropriate measures to defend its interests.

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

In October 2015, Julius Baer International Ltd., UK, has been presented a complaint by three associated clients claiming failings with respect to the suitability of investments made on their behalf, obtaining appropriate instructions, the provision of appropriate information and the monitoring processes. As a consequence, the clients claimed a loss of approximately USD 37 million. In December 2016, the clients have provided Julius Baer International Limited and Bank Julius Baer & Co. Ltd. with a draft of their particulars of claim, specifying their claim to approximately USD 20.6 million. Julius Baer International Ltd. is handling and reporting this case in line with local rules and regulations.

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

19 SHARE CAPITAL

	Registered shares (CHF 0.02 par)	
	Number	CHF m
Balance on 01.01.2015	223,809,448	4.5
<i>of which entitled to dividends</i>	223,809,448	4.5
Balance on 31.12.2015	223,809,448	4.5
<i>of which entitled to dividends</i>	223,809,448	4.5
Balance on 31.12.2016	223,809,448	4.5
<i>of which entitled to dividends</i>	223,809,448	4.5

ADDITIONAL INFORMATION

20 REPORTING BY SEGMENT

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

The Group's external segment reporting is based on the internal reporting to the chief operating decision maker, which is responsible for allocating resources and assesses the financial performance of the business. The Executive Board of the Group has been identified as the chief operating decision maker, as this board is responsible for the implementation of the overall strategy and the operational management of the whole Group. The Executive Board of the Group as at 31 December 2016 is composed of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Communications Officer, General Counsel and Business Representative.

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

In accordance with the applicable rules and based on the analysis of the relevant factors determining segments, the Group consists of a single reportable segment. This is in line with the strategy and business model of the Group and reflects the management structure and the use of information by management in making operating decisions. The acquired Merrill Lynch International Wealth Management business did not change the management structure, as it has been fully integrated into the existing structures of the Group. Although GPS and Kairos represent separate cash-generating units for the purpose of the goodwill impairment testing (refer to Note 12 for details), they do not constitute segments on their own.

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

Entity-wide disclosures

	31.12.2016	31.12.2015	2016	2015	2016	2015
	Total assets CHF m	CHF m	Operating income CHF m	CHF m	Investments CHF m	CHF m
Switzerland	80,573	69,605	1,865	1,814	119	113
Europe (excl. Switzerland)	25,080	17,595	465	406	462	5
Americas	1,338	1,565	106	142	3	13
Asia and other countries	20,599	19,385	560	532	48	101
Less consolidation items	31,383	24,034	143	200		
Total	96,207	84,116	2,852	2,694	633	231

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

22 PENSION PLANS AND OTHER EMPLOYEE BENEFITS

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

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

	2016 CHF m	2015 CHF m
1. Development of pension obligations and assets		
Present value of defined benefit obligation at the beginning of the year	-2,597.9	-2,417.7
Acquisitions	-10.2	-
Current service cost	-68.4	-63.3
Employees' contributions	-39.0	-34.6
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.9	-1.4
Benefits paid (including benefits paid directly by employer)	40.4	41.4
Transfer payments in/out	-0.5	-0.0
Experience gains/(losses) on defined benefit obligation	-18.3	-47.2
Actuarial gains/(losses) arising from change in demographic assumptions	4.9	75.9
Actuarial gains/(losses) arising from change in financial assumptions	-47.9	-124.4
Translation differences	13.1	5.5
Present value of defined benefit obligation at the end of the year	-2,687.3	-2,597.9
<i>whereof due to active members</i>	-1,701.3	-1,689.2
<i>whereof due to deferred members</i>	-83.4	-71.7
<i>whereof due to pensioners</i>	-902.6	-836.9
Fair value of plan assets at the beginning of the year	2,346.6	2,283.3
Acquisitions	6.6	-
Interest income on plan assets	20.2	30.9
Employees' contributions	39.0	34.6
Employer's contributions	106.1	78.7
Curtailments, settlements, plan amendments	-0.6	-2.9
Benefits paid by fund	-40.4	-41.4
Transfer payments in/out	0.5	0.0
Administration cost (excluding asset management cost)	-0.9	-0.9
Return on plan assets (excluding interest income)	85.8	-30.8
Translation differences	-12.5	-5.0
Fair value of plan assets at the end of the year	2,550.4	2,346.6
	31.12.2016 CHF m	31.12.2015 CHF m
2. Balance sheet		
Fair value of plan assets	2,550.4	2,346.6
Present value of defined benefit obligation	-2,683.9	-2,597.9
Present value of unfunded benefit obligation	-3.4	-
Net defined benefit asset/(liability)	-136.9	-251.3

	2016 CHF m	2015 CHF m
3. Income statement		
Current service cost	-68.4	-63.3
Interest expense on defined benefit obligation	-21.5	-32.0
Past service cost, curtailments, settlements, plan amendments	57.3 ¹	-4.3
Interest income on plan assets	20.2	30.9
Administration cost (excluding asset management cost)	-0.9	-0.9
Defined benefit cost recognised in the income statement	-13.2	-69.6
<i>whereof service cost</i>	-12.0	-68.5
<i>whereof net interest on the net defined benefit/(liability) asset</i>	-1.3	-1.1

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

4. Movements in defined benefit liability

Net defined benefit asset/(liability) at the beginning of the year	-251.3	-134.4
Acquisitions	-3.6	-
Translation differences	0.6	0.4
Defined benefit cost recognised in the income statement	-13.2	-69.6
Benefits paid by employer	0.0	0.0
Employer's contributions	106.1	78.7
Remeasurements of the net defined benefit liability/(asset)	24.5	-126.6
Amount recognised in the balance sheet	-136.9	-251.3

Remeasurements of the net defined benefit liability/(asset)

Actuarial gains/(losses) of defined benefit obligation	-61.3	-95.7
Return on plan assets (excluding interest income)	85.8	-30.8
Total recognised in other comprehensive income	24.5	-126.6

5. Composition of plan assets

Cash	125.1	44.7
Debt instruments	776.6	747.2
Equity instruments	757.0	775.1
Real estate	408.0	344.9
Alternative investments	262.9	230.1
Other	220.6	204.6
Total	2,550.4	2,346.6

	2016 <i>in %</i>	2015 <i>in %</i>
6. Aggregation of plan assets – quoted market prices in active markets		
Cash	4.9	1.9
Debt instruments	29.2	30.5
Equity instruments	29.7	33.1
Real estate	7.2	7.5
Other	13.5	11.3
Total	84.5	84.3

	2016 <i>CHF m</i>	2015 <i>CHF m</i>
7. Sensitivities		
Decrease of discount rate -0.25%		
Effect on defined benefit obligation	-73.4	-72.7
Effect on service cost	-2.4	-2.3
Increase of discount rate +0.25%		
Effect on defined benefit obligation	69.4	68.7
Effect on service cost	2.2	2.1
Decrease of salary increase -0.25%		
Effect on defined benefit obligation	9.0	5.5
Effect on service cost	0.9	0.5
Increase of salary increase +0.25%		
Effect on defined benefit obligation	-9.2	-5.4
Effect on service cost	-0.9	-0.6
Life expectancy		
Increase in longevity by one additional year	53.3	

Actuarial calculation of pension assets and obligations

The latest actuarial calculation was carried out as at 31 December 2016. The actuarial assumptions are based on local economic conditions and are as follows for Switzerland, which accounts for about 96% (2015: 96%) of all benefit obligations and plan assets:

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

Investment in Julius Baer Group Ltd. shares

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

Expected employer contributions

The expected employer contributions for the 2017 financial year related to defined benefit plans are estimated at CHF 84.8 million.

Outstanding liabilities to pension plans

The Group had outstanding liabilities to various pension plans in the amount of CHF 8.2 million (2015: CHF 7.2 million).

Defined contribution pension plans

The Group maintains a number of defined contribution pension plans, primarily outside Switzerland. In the case of defined contribution pension plans, the pension expenses are charged to the income statement in the corresponding financial year. The expenses for contributions to these pension plans amounted to CHF 27.4 million for the 2016 financial year (2015: CHF 27.0 million).

23 SECURITIES TRANSACTIONS

Securities lending and borrowing transactions / repurchase and reverse repurchase transactions

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

The Group enters into fully collateralised securities borrowing and securities lending transactions and repurchase and reverse repurchase agreements that may result in credit exposure in the event that the counterparty may be unable to fulfil the contractual obligations. Generally, the transactions are carried out under standard agreements employed by market participants (e.g. Global Master Securities Lending Agreements or Global Master Repurchase

Agreements). The related credit risk exposures are controlled by daily monitoring and adjusted collateralisation of the positions. The financial assets which continue to be recognised are typically transferred in exchange for cash or other financial assets. The related liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets.

24 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives held for trading

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
Foreign exchange derivatives			
Forward contracts	68,917.7	804.2	720.0
Futures	97.6	0.1	0.1
Cross-Currency Swaps	267.9	-	5.0
Unmatured Spot Contracts	-	-	-
Options (OTC)	39,215.9	460.7	362.9
Total foreign exchange derivatives 31.12.2016	108,499.1	1,264.9	1,088.0
Total foreign exchange derivatives 31.12.2015	105,942.6	1,011.4	800.1
Interest rate derivatives			
Swaps	8,797.4	108.8	103.4
Futures	791.9	1.4	1.7
Options (OTC)	261.8	13.1	6.9
Total interest rate derivatives 31.12.2016	9,851.1	123.2	112.0
Total interest rate derivatives 31.12.2015	9,767.1	112.0	111.0
Precious metals derivatives			
Forward contracts	1,687.4	18.9	61.7
Futures	180.4	1.3	0.0
Options (OTC)	2,788.7	191.0	37.4
Total precious metals derivatives 31.12.2016	4,656.5	211.2	99.1
Total precious metals derivatives 31.12.2015	2,940.9	159.6	36.9
Equity/indices derivatives			
Futures	1,812.3	48.5	43.0
Options (OTC)	10,303.4	176.2	181.3
Options (traded)	9,525.9	853.2	670.4
Total equity/indices derivatives 31.12.2016	21,641.6	1,077.9	894.7
Total equity/indices derivatives 31.12.2015	19,738.1	895.2	1,361.1
Other derivatives			
Futures	144.1	0.5	2.7
Total other derivatives 31.12.2016	144.1	0.5	2.7
Total other derivatives 31.12.2015	127.8	10.3	-

Derivatives held for trading (continued)

	Contract/ Notional amount CHF m	Positive replacement value CHF m	Negative replacement value CHF m
Credit derivatives			
Credit default swaps	295.0	0.1	6.7
Total return swaps	66.5	2.3	0.2
Swaps	39.4	-	10.2
Total credit derivatives 31.12.2016	401.0	2.4	17.1
Total credit derivatives 31.12.2015	180.5	0.6	9.9
Total derivatives held for trading 31.12.2016	145,193.5	2,680.1	2,213.5
Total derivatives held for trading 31.12.2015	138,697.1	2,189.1	2,318.9

Derivatives held for hedging

Derivatives designated as fair value hedges

Interest rate swaps	2,171.1	10.8	71.9
Total derivatives held for hedging 31.12.2016	2,171.1	10.8	71.9
Total derivatives held for hedging 31.12.2015	1,442.5	-	72.5
Total derivative financial instruments 31.12.2016	147,364.6	2,690.9	2,285.3
Total derivative financial instruments 31.12.2015	140,139.6	2,189.1	2,391.4

25A FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
Cash, loans and receivables				
Cash	13,599.5	13,599.5	9,185.7	9,185.7
Due from banks	11,389.8	11,395.5	6,901.1	6,909.0
Loans	38,419.0	38,873.2	36,380.9	36,850.6
Accrued income	282.8	282.8	326.9	326.9
Total	63,691.1	64,151.0	52,794.7	53,272.2
Held for trading				
Trading assets	7,261.8	7,261.8	6,957.7	6,957.7
Derivative financial instruments	2,680.1	2,680.1	2,189.1	2,189.1
Total	9,941.9	9,941.9	9,146.8	9,146.8
Derivatives designated as hedging instruments				
Derivative financial instruments	10.8	10.8	-	-
Total	10.8	10.8	-	-
Designated at fair value				
Financial assets designated at fair value	252.4	252.4	197.0	197.0
Total	252.4	252.4	197.0	197.0
Available-for-sale				
Financial investments available-for-sale	18,266.6	18,266.6	16,572.5	16,572.5
Total	18,266.6	18,266.6	16,572.5	16,572.5
Total financial assets	92,162.8	92,622.7	78,710.9	79,188.4

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Financial liabilities

	Carrying value CHF m	31.12.2016 Fair value CHF m	Carrying value CHF m	31.12.2015 Fair value CHF m
Financial liabilities at amortised costs				
Due to banks	10,076.8	10,076.9	4,672.0	4,672.3
Due to customers	67,495.2	67,496.9	64,781.4	64,782.8
Debt issued	1,213.5	1,254.0	1,152.7	1,191.8
Accrued expenses	187.7	187.7	154.4	154.4
Total	78,973.2	79,015.5	70,760.4	70,801.3
Held for trading				
Trading liabilities	159.0	159.0	190.8	190.8
Derivative financial instruments	2,213.5	2,213.5	2,318.9	2,318.9
Total	2,372.4	2,372.4	2,509.7	2,509.7
Derivatives designated as hedging instruments				
Derivative financial instruments	71.9	71.9	72.5	72.5
Total	71.9	71.9	72.5	72.5
Designated at fair value				
Financial liabilities designated at fair value	8,444.4	8,444.4	4,263.1	4,263.1
Other liabilities	41.2 ¹	41.2	24.5 ²	24.5
Total	8,485.6	8,485.6	4,287.6	4,287.6
Total financial liabilities	89,903.1	89,945.5	77,630.3	77,671.1

¹ Relates to the deferred purchase price of Fransad Gestion SA, NSC Asesores, S.C., and GPS Investimentos Financeiros e Participações S.A., see Notes 26B and 27.

² Relates to the deferred purchase price of WMPartners Wealth Management Ltd., Fransad Gestion SA and NSC Asesores, S.C., see Notes 26B and 27.

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

Short-term financial instruments

Financial instruments with a maturity or a refinancing profile of one year or less are generally classified as short-term. This applies for the balance sheet items cash and money market instruments. Depending on the maturity, it also includes the following: due from banks; loans; mortgages; due to banks; due to customers and debt issued. For short-term financial instruments which do not have a market price published by a recognised stock exchange or notable market (referred to hereinafter as a market price), the carrying value fundamentally approximates the fair value.

Long-term financial instruments

Depending on the maturity, these include the following balance sheet items: due from banks; loans; mortgages; due to banks; due to customers and debt issued. The fair value of long-term financial instruments which have a maturity or a refinancing profile of more than one year is derived by using the net present value method. Generally, the Libor rate is used to calculate the net present value of the loans and mortgages, as these assets are fully collateralised and therefore the specific counterparty risk has no material impact on the fair value measurement.

Trading assets and liabilities, financial investments available-for-sale, derivative financial instruments and financial liabilities designated at fair value

Refer to Note 25B for details regarding the valuation of these instruments.

25B FINANCIAL INSTRUMENTS – FAIR VALUE DETERMINATION

Level 1

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

Level 2

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

Level 3

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

Financial investments available-for-sale: The Group holds certain equity instruments, which are required for the operation of the Group and are reported as financial instruments available-for-sale, with changes in the fair value recognised in other comprehensive income. The determination of the fair value is based on the published net asset value of the investees. The net asset values are adjusted by management for any necessary impacts from events which may

have an influence on the valuation (adjusted net asset method). In 2016, dividends related to these investments in the amount of CHF 7.3 million have been recognised in the income statement.

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

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

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

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

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				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities measured at fair value				
Trading assets – debt instruments	773.6	382.1	-	1,155.7
Trading assets – equity instruments	5,388.1	413.9	-	5,802.0
Total trading assets	6,161.7	795.9	-	6,957.7
Foreign exchange derivatives	5.0	1,006.4	-	1,011.4
Interest rate derivatives	2.2	109.8	-	112.0
Precious metal derivatives	1.0	158.6	-	159.6
Equity/indices derivatives	22.3	872.9	-	895.2
Credit derivatives	-	0.6	-	0.6
Other derivatives	10.3	-	-	10.3
Total derivative financial instruments	40.8	2,148.3	-	2,189.1
Financial assets designated at fair value	121.8	27.0	48.2	197.0
Financial investments available-for-sale – money market instruments	-	2,298.1	-	2,298.1
Financial investments available-for-sale – debt instruments	10,395.2	3,782.0	-	14,177.2
Financial investments available-for-sale – equity instruments	15.7	7.2	74.3	97.2
Total financial investments available-for-sale	10,410.9	6,087.3	74.3	16,572.5
Total assets	16,735.2	9,058.5	122.5	25,916.2
Short positions – debt instruments	81.2	36.0	-	117.2
Short positions – equity instruments	54.0	19.6	-	73.6
Total trading liabilities	135.2	55.6	-	190.8
Foreign exchange derivatives	4.8	795.2	-	800.1
Interest rate derivatives	3.4	180.0	-	183.5
Precious metal derivatives	0.0	36.9	-	36.9
Equity/indices derivatives	20.2	1,340.9	-	1,361.1
Credit derivatives	-	9.9	-	9.9
Other derivatives	0.0	-	-	0.0
Total derivative financial instruments	28.5	2,362.9	-	2,391.4
Financial liabilities designated at fair value	-	4,059.7	203.4	4,263.1
Total liabilities	163.7	6,478.2	203.4	6,845.3

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

				31.12.2016
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities disclosed at fair value				
Cash	13,599.5	-	-	13,599.5
Due from banks	-	11,395.5	-	11,395.5
Loans	-	38,873.2	-	38,873.2
Accrued income	-	282.8	-	282.8
Total assets	13,599.5	50,551.5	-	64,151.0
Due to banks	-	10,076.9	-	10,076.9
Due to customers	-	67,496.9	-	67,496.9
Debt issued	1,254.0	-	-	1,254.0
Accrued expenses	-	187.7	-	187.7
Other liabilities	-	-	41.2	41.2
Total liabilities	1,254.0	77,761.5	41.2	79,056.7
				31.12.2015
	Quoted market price Level 1 CHF m	Valuation technique market- observable inputs Level 2 CHF m	Valuation technique non-market- observable inputs Level 3 CHF m	Total CHF m
Assets and liabilities disclosed at fair value				
Cash	9,185.7	-	-	9,185.7
Due from banks	-	6,909.0	-	6,909.0
Loans	-	36,850.6	-	36,850.6
Accrued income	-	326.9	-	326.9
Total assets	9,185.7	44,086.5	-	53,272.2
Due to banks	-	4,672.3	-	4,672.3
Due to customers	-	64,782.8	-	64,782.8
Debt issued	1,191.8	-	-	1,191.8
Accrued expenses	-	154.4	-	154.4
Other liabilities	-	-	24.5	24.5
Total liabilities	1,191.8	69,609.5	24.5	70,825.8

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

	31.12.2016 CHF m	31.12.2015 CHF m
Transfers from level 1 to level 2		
Trading assets	1.3	121.7
Derivative financial instruments	-	106.2
Financial investments available-for-sale	-	2,187.0
Trading liabilities	-	4.7
Derivative financial instruments	-	313.0
Financial liabilities designated at fair value	-	321.5
Transfers from level 2 to level 1		
Trading assets	244.0	38.5
Financial investments available-for-sale	2,141.4	580.0
Trading liabilities	0.5	0.5

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

25D FINANCIAL INSTRUMENTS – OFFSETTING

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

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

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

Securities Transactions: As the Group does not apply netting on its balance sheet, the cash collateral provided in securities borrowing and reverse repurchase transactions in the amount of CHF 17.6 million (2015: CHF 883.5 million) and the cash collateral received in securities lending and repurchase transactions in the amount of CHF 1,549.51 million (2015: CHF 1,336.1 million) as disclosed in Note 23 are not offset with the respective counterparty positions in the balance sheet.

Derivative financial instruments: The derivative financial instruments consist of over-the-counter as well as exchange-traded derivatives. The majority of over-the-counter derivatives in the total amount of CHF 1,786.1 million (positive replacement values) and CHF 1,567.4 million (negative replacement values) are subject to an enforceable netting agreement. Transactions with other banks are generally collateralised with other financial instruments (derivatives) which are recognised on the Group's balance sheet. With non-banking counterparties, the collateral recognised is generally cash balances. None of these balances related to the derivatives transactions are offset on the balance sheet. Additionally, there are derivative financial instruments in the amount of CHF 664.3 million (2015: CHF 462.9 million) which could be offset with the corresponding outstanding amount.

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

26A COMPANIES CONSOLIDATED AS AT 31 DECEMBER 2016

Listed company which is consolidated

	Place of listing	Head Office	Currency	Share capital m	Capitalisation as at 31.12.2016 m
Julius Baer Group Ltd.	SIX Swiss Exchange	Zurich	CHF	4.5	10,123

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

Unlisted operational companies which are consolidated

	Head Office	Currency	Share capital m	Equity interest %
Bank Julius Baer & Co. Ltd.	Zurich	CHF	575.000	100
<i>Branches in Basle, Berne, Crans-Montana, Geneva, Guernsey, Hong Kong, Kreuzlingen, Lausanne, Lucerne, Lugano, Singapore, Sion, St. Gallen, St. Moritz, Verbier, Zug, Zurich Representative Offices in Abu Dhabi, Dubai, Istanbul, Moscow, Panama City, Santiago de Chile, Shanghai, Tel Aviv including</i>				
<i>Bank Julius Baer Nominees (Singapore) Pte. Ltd.</i>	<i>Singapore</i>	<i>SGD</i>	<i>0.000</i>	<i>100</i>
<i>Arpese SA</i>	<i>Lugano</i>	<i>CHF</i>	<i>0.400</i>	<i>100</i>
Bank Julius Bär Europe AG	Frankfurt	EUR	15.000	100
<i>Branches in Duesseldorf, Hamburg, Kiel, Mannheim, Munich, Stuttgart, Würzburg including</i>				
<i>Julius Bär Capital GmbH</i>	<i>Frankfurt</i>	<i>EUR</i>	<i>0.026</i>	<i>100</i>
Bank Julius Baer Luxembourg S.A.	Luxembourg	EUR	33.165	100
Bank Julius Baer (Monaco) S.A.M.	Monaco	EUR	60.000	100
Fransad Gestion SA	Geneva	CHF	1.000	100
Julius Baer Investment Ltd.	Zurich	CHF	0.100	100
<i>including</i>				
<i>Julius Baer Consultores S.A.</i>	<i>Caracas</i>	<i>BSF</i>	<i>2.150</i>	<i>100</i>
<i>Julius Baer Trust Company (Singapore) Ltd.</i>	<i>Singapore</i>	<i>SGD</i>	<i>2.812</i>	<i>100</i>

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	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
JB Participações Brasil Ltda. <i>including</i>	São Paulo	BRL	394.016	100
<i>GPS Investimentos Financeiros e Participações S.A.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.280</i>	<i>100</i>
<i>including</i>				
<i>GPS Planejamento Financeiro Ltda.</i>	<i>São Paulo</i>	<i>BRL</i>	<i>0.207</i>	<i>100</i>
<i>Branches in Rio de Janeiro, Belo Horizonte</i>				
JB Participations Ltd.	Zurich	CHF	15.000	100
Julius Baer Advisory S.A.E.	Cairo	EGP	12.847	100
Julius Baer Advisory (Uruguay) S.A.	Montevideo	UYU	0.087	100
Julius Baer Agencia de Valores, S.A.U.	Madrid	EUR	0.902	100
Julius Baer Capital (Guernsey) I Ltd. (in liquidation)	Guernsey	CHF	0.000	100
Julius Baer (Chile) SpA	Santiago de Chile	CLP	498.928	100
Julius Baer Consultores (Peru) S.A.C.	Lima	PEN	4.164	100
Julius Baer Family Office & Trust Ltd. <i>including</i>	Zurich	CHF	0.100	100
<i>Julius Baer Trust Company (New Zealand) Limited</i>	<i>Auckland</i>	<i>CHF</i>	<i>0.105</i>	<i>100</i>
Julius Baer Fiduciaria S.p.A.	Milan	EUR	0.100	100
Julius Baer Financial Services (Channel Islands) Ltd.	Jersey	GBP	0.025	100
Julius Baer Financial Services (Israel) Ltd.	Tel Aviv	ILS	11.000	100
Julius Baer Gestión, SGIIC, S.A.U.	Madrid	EUR	2.100	100
Julius Baer International Advisory (Uruguay) S.A.	Montevideo	USD	1.600	100
Julius Baer International Limited <i>Branch in Dublin</i>	London	GBP	122.200	100
Julius Baer International Panama Inc. <i>including</i>	Panama City	CHF	19.383	100
<i>Julius Baer Bank & Trust (Bahamas) Ltd.</i>	<i>Nassau</i>	<i>CHF</i>	<i>20.000</i>	<i>100</i>
<i>including</i>				
<i>Julius Baer Trust Company (Bahamas) Ltd. (in liquidation)</i>	<i>Nassau</i>	<i>CHF</i>	<i>2.000</i>	<i>100</i>

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	Head Office	Currency	Share capital m	Equity interest %
JULIUS BAER INTERNATIONAL SHARED SERVICES CENTER (URUGUAY) S.A.	Montevideo	UYU	1.340	100
Julius Baer Investment Advisory GesmbH	Vienna	EUR	0.050	100
Julius Baer Investment Services S.à r.l.	Luxembourg	EUR	1.250	100
Julius Baer Investments S.A.S. (in liquidation)	Paris	EUR	3.811	100
Julius Baer Investments (Panama) S.A.	Panama City	USD	22.630	100
Julius Bär Lizenzverwertungsgesellschaft AG	Zug	CHF	0.100	100
Julius Baer Portfolio Managers Limited	London	GBP	0.054	100
Julius Baer Trust Company (Channel Islands) Limited	Guernsey	CHF	0.065	100
Julius Baer Wealth Advisors (India) Private Limited <i>Branches in Bangalore, Chennai, Kolkata, New Delhi including</i>	Mumbai	INR	10,081.410	100
<i>Julius Baer Capital (India) Private Limited</i>	<i>Mumbai</i>	<i>INR</i>	<i>2,334.350</i>	<i>100</i>
Julius Bär Wealth Management AG <i>Branch in Tokyo</i>	Erlenbach	CHF	5.700	100
Julius Baer Wealth Management (Monaco) S.A.M.	Monaco	EUR	0.465	100
Julius Baer (Bahrain) B.S.C. (c)	Manama	BHD	1.000	100
Julius Baer (Lebanon) S.A.L.	Beirut	LBP	2,000.000	100
Julius Baer (Middle East) Ltd.	Dubai	USD	22.000	100
Julius Baer (Netherlands) B.V.	Amsterdam	EUR	0.000	100
Julius Baer (Uruguay) S.A.	Montevideo	UYU	25.169	100
Kairos Investment Management S.p.A. <i>including</i>	Milan	EUR	2.355	80
<i>KAIROS ASSET MANAGEMENT SA</i>	<i>Lugano</i>	<i>EUR</i>	<i>0.600</i>	<i>100</i>
<i>Kairos Investment Management B.V.</i>	<i>Amsterdam</i>	<i>EUR</i>	<i>1.000</i>	<i>100</i>
<i>– including Kairos Investment Management Limited</i>	<i>London</i>	<i>GBP</i>	<i>5.884</i>	<i>100</i>
<i>Kairos Julius Baer SIM S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>10.000</i>	<i>100</i>
<i>– Representative Offices in Rome, Turin</i>				
<i>Kairos Partners SGR S.p.A.</i>	<i>Milan</i>	<i>EUR</i>	<i>5.084</i>	<i>100</i>

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	Head Office	Currency	Share capital <i>m</i>	Equity interest <i>%</i>
PINVESTAR AG	Zug	CHF	0.100	100
PT Julius Baer Advisors Indonesia (in liquidation)	Jakarta	IDR	6,725.000	100
URSA Company Ltd. (in liquidation)	Grand Cayman	CHF	0.500	100
WMPartners Wealth Management Ltd.	Zurich	CHF	1.000	100
Aktiengesellschaft formerly Waser Söhne & Cie, Werdmühle Altstetten	Zurich	CHF	2.260	100
LOTECO Foundation	Zurich	CHF	0.100	100

Major changes in the companies consolidated:

- Kairos Investment Management S.p.A., Milan, new
- GPS Investimentos Financeiros e Participações S.A., São Paulo, new 100%

- Commerzbank International S.A. Luxembourg, new and renamed into Bank Julius Baer Luxembourg S.A., Luxembourg

26B INVESTMENTS IN ASSOCIATES

	Head Office	Currency	Share capital m	Equity interest %
Associates				
NSC Asesores, S.C., Asesor en Inversiones Independiente	Mexico City	MXN	1.884	40
			31.12.2016 CHF m	31.12.2015 CHF m
Balance at the beginning of the year			90.3	66.0
Additions			-	28.9
Disposals			-99.8¹	-
Income			48.7²	5.9
Dividend paid			-10.2	-4.4
Translation differences			0.4	-6.1
Balance at the end of the year			29.4	90.3

¹ Relates to the increase of the Group's participation in Kairos, see Note 27.

² Includes the revaluation to fair value of Kairos.

The total comprehensive income of the associated companies amounts to CHF 3.6 million (2015: CHF 26.1 million for Kairos Investment Management SpA and NSC Asesores).

NSC Asesores

On 6 November 2015, the Group acquired 40% of the Mexico City-based NSC Asesores, S.C., Asesor en Inversiones Independiente, which is specialised in discretionary portfolio management and advisory services for high net worth individuals. The Group

paid half of the consideration in the amount of CHF 14.5 million in cash for this interest, which was fully funded by existing excess capital of the Group. The Group agreed on two additional payments on 6 November 2016 (CHF 7.1 million performed as agreed) and 2017, respectively, for the outstanding purchase price. The Group also received two options to acquire additional interests of 30% per option in NSC Asesores at a predetermined relative price. The options will be exercisable in 2018 and 2021, respectively.

26C UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in the set-up and operation of a limited number of structured entities such as segregated portfolio companies, private equity feeder funds, umbrella funds and similar vehicles in the legal form of limited partnerships (L.P.), which are invested in segregated portfolios or feeder funds. All the L.P. serve as investment vehicles for the Group's clients. The Group generally acts as investment manager and custodian bank and also holds the management shares of the L.P. These shares are

equipped with voting rights, but do not provide any participating rights in the underlying investments. The Group receives a market-based fixed fee for its services and has no interests in the underlying segregated portfolios or feeder funds. Therefore, due to the missing exposure, or rights, to variable returns from its involvement with the segregated portfolios or feeder funds, the Group does not have control over the underlying investments, but only consolidates the limited partnerships.

27 ACQUISITIONS

Apart from the acquisition of Merrill Lynch's International Wealth Management business (see Note 30 for details), the following transactions were executed:

Kairos (2016)

In November 2015, the Group agreed to exercise its option and to increase its stake in Kairos Investment Management S.p.A. by acquiring an additional 60.1% interest of the Milan-based company, following its initial purchase of 19.9% in 2013. The transaction was exercised on 1 April 2016. The Group paid the consideration for this additional interest in the amount of CHF 301.5 million in cash which was fully funded by existing excess capital of the Group. As part of the transaction, the Group realised a net gain in the amount of CHF 38.6 million on the revaluation to fair value of the 19.9% interest

previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2016.

Kairos is specialised in wealth and asset management, including investment solutions and advice and fits into the Group's growth strategy. The Group and Kairos have agreed to pursue the listing of Kairos in a subsequent step through an offering of a minority percentage of Kairos' share capital. Kairos continues to operate under its brand.

For the 12 months ended 31 December 2016, Kairos recorded CHF 80.1 million operating income and CHF 22.7 million net profit. Since its acquisition on 1 April 2016, Kairos has contributed CHF 64.5 million operating income and CHF 18.8 million net profit to the Group's results.

The assets and liabilities of Kairos were recorded provisionally as follows:

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

**Julius Bär Wealth Management AG
(formerly TFM Asset Management AG) (2016)**

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

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 2.1 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

**Commerzbank International S.A. Luxembourg/
Bank Julius Baer Luxembourg S.A., Luxembourg
(2016)**

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

For the 12 months ended 31 December 2016, Commerzbank International S.A. Luxembourg/Bank Julius Baer Luxembourg S.A. recorded CHF 94.5 million operating income and CHF 63.5 million net profit. Since its acquisition on 4 July 2016, the entity has contributed CHF 14.9 million operating income and CHF –6.9 million net profit to the Group's results.

The assets and liabilities of Commerzbank International SA Luxembourg/Bank Julius Baer Luxembourg were recorded provisionally as follows:

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

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

GPS Investimentos Financeiros e Participações S.A. (2016)

On 25 March 2014, the Group acquired an additional 50% interest in São Paulo-based GPS Investimentos Financeiros e Participações S.A., which includes GPS Planejamento Financeiro Ltda. and CFO Administração de Recursos Ltda. ('GPS'). This transaction increased the Group's participation in GPS to 80% from the 30% acquired in May 2011. On 25 March 2014, the Group paid half of the consideration in the amount of CHF 55.8 million in cash for this additional interest which was fully funded by existing excess capital of the Group. In addition, the Group agreed on two additional payments on 25 March 2015 and 10 December 2015, which were performed. As part of the transaction, the Group realised a net gain in the amount of CHF 14.8 million on the revaluation to fair value of the 30% interest previously held as an investment in associates, including foreign exchange translation losses, which was recognised in other ordinary results in 2014.

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

Changes in ownership interests while retaining control are accounted for as transactions with equity holders in their capacity as equity holders, i.e., the difference of CHF 21.5 million between the amount of the former non-controlling interest and the fair value of the consideration paid is recognised directly in equity (retained earnings). In addition, no changes in the carrying amount of assets, including goodwill, or liabilities are recognised.

GPS is specialised in discretionary portfolio management and advisory services. 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. GPS continues to operate under its brand.

The assets and liabilities of GPS were recorded as follows (unchanged since 2014):

	Fair value CHF m
Purchase price	
in cash	55.8
contribution of the 30% interest (at fair value)	66.9
deferred purchase price (liabilities)	55.8
Total	178.5
Assets acquired	
Due from banks	4.7
All other assets	7.3
Total	12.0
Liabilities assumed	
Deferred tax liabilities	18.5
All other liabilities	13.2
Total	31.7
Goodwill and other intangible assets and non-controlling interests	
Goodwill	151.4
Customer relationships	54.4
Non-controlling interests	7.6
Total	198.2

Fransad Gestion SA (2015)

On 3 November 2015, the Group acquired the Swiss independent wealth manager Fransad Gestion SA which is based in Geneva. Fransad complements the Group's existing independent wealth management business and strengthens the Group's position in French-speaking Switzerland.

The purchase price, including the deferred portion due in March 2018, of CHF 16.6 million has been and will be paid in cash and is fully funded by existing excess capital of the Group.

The assets and liabilities of Fransad Gestion SA were recorded as follows:

	Fair value CHF m
Purchase price	
in cash	12.1
deferred purchase price (liabilities)	4.5
Total	16.6
Due from banks	3.9
All other assets	2.6
Assets acquired	6.5
All other liabilities	4.2
Liabilities assumed	4.2
Goodwill and other intangible assets	
Goodwill	5.9
Customer relationships	8.3
Total	14.3

29 ASSETS UNDER MANAGEMENT

Assets under management include all bankable assets managed by or deposited with the Group for investment purposes. Assets included are portfolios of wealth management clients for which the Group provides discretionary or advisory asset management services. Assets deposited with the Group held for transactional or safekeeping/custody purposes, and where the Group does not offer advice on how the assets should be invested, are excluded from assets under management. In general, transactional or safekeeping/custody assets belong to banks, brokers, securities traders, custodians, or certain institutional investors. Non-bankable assets (e.g. art collections, real estate), asset flows driven more by liquidity requirements than investment purposes or assets primarily used for cash management, funding or trading purposes are also not considered assets under management.

Assets with discretionary mandate are defined as assets for which the investment decisions are made by the Group, and cover assets deposited with Group companies as well as assets deposited at third-party institutions. Other assets under management are defined as assets for which the investment decision is made by the client himself. Both assets with discretionary mandate and other assets under management take into account client deposits as well as market values of securities, precious metals, and fiduciary investments placed at third-party institutions.

When assets under management are subject to more than one level of asset management services, double counting arises within the total assets under management. Each such separate discretionary or advisory service provides additional benefits to the respective client and generates additional revenue to the Group.

Net new money consists of new client acquisitions, client departures and in- or outflows attributable to existing clients. It is calculated through the direct method, which is based on individual client transactions. New or repaid loans and related interest expenses result in net new money flows. Interest and dividend income from assets under management, market or currency movements as well as fees and commissions are not included in the net new money result. Effects resulting from any acquisition or divestment of a Group subsidiary or business are stated separately. Reclassifications between assets under management and assets held for transactional or safekeeping/custody purposes result in corresponding net new money in- or outflows.

Assets under management which are managed by or deposited with associates of the Group are not considered assets managed by or deposited with the Group and are therefore not included in the respective numbers.

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

Assets under management

	2016 CHF m	2015 CHF m	Change %
Assets with discretionary mandate	54,904	45,420	20.9
Other assets under management	277,083	253,589	9.3
Assets in collective investment schemes managed by the Group ¹	4,174	678	515.6
Total assets under management (including double counting)	336,161	299,687	12.2
<i>of which double counting</i>	6,106	4,884	25.0
Change through net new money	11,865	12,070	
Change through market and currency impacts	13,395	-10,413	
Change through acquisition	11,267 ²	8,017 ³	
Change through divestment	-53	-584 ⁴	
Client assets	391,620	363,781 ⁵	7.7

¹ Collective investment schemes in 2015 are related to GPS Investimentos Financeiros e Participações S.A., São Paulo, in 2016 additionally to Kairos Investment Management SpA, Milan.

² In April 2016, the Group increased its participation in Kairos Investment Management SpA, Milan, to 80%.
In July 2016, the Group acquired Commerzbank International S.A. Luxembourg.

³ In March 2015, the Group acquired the business of Leumi Private Bank Ltd.
On 21 September 2015, the Group acquired the business of Merrill Lynch's International Wealth Management (IWM) in India.
In November 2015, the Group acquired Fransad Gestion SA, Geneva.

⁴ Relates to the asset outflow at Julius Baer Investments S.A.S., Paris, which was acquired as part of Merrill Lynch's International Wealth Management (IWM) business and that Group management decided to close.

⁵ Excluding assets which were counted as assets under management and assets under custody previously.

Breakdown of assets under management

	2016 %	2015 %
By types of investment		
Equities	27	27
Bonds (including convertible bonds)	19	19
Investment funds	24	23
Money market instruments	6	4
Client deposits	17	21
Structured products	5	5
Other	2	1
Total	100	100
By currencies		
CHF	11	12
EUR	22	21
USD	45	46
GBP	4	4
SGD	2	2
HKD	3	3
RUB	1	-
CAD	1	1
Other	11	11
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 ACQUISITION OF MERRILL LYNCH'S INTERNATIONAL WEALTH MANAGEMENT BUSINESS

Transaction summary

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

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

Purchase price

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

Financing of the transaction

The Group put the following funding in place:

- the issuance of the consideration shares out of authorised share capital to Merrill Lynch & Co., Inc. in the amount of CHF 243 million at a predetermined share price;
- the issuance of shares through a public rights offering in the amount of CHF 492 million in October 2012;

- existing excess capital in the amount of CHF 488 million; and
- the issuance of perpetual tier 1 subordinated bonds in the amount of CHF 250 million in September 2012.

Consideration was transferred as follows:

- first USD 150 million in cash;
- subsequent USD 500 million payable 50% in cash and 50% in shares of Julius Baer Group Ltd.; and
- remainder in cash.

Final status as at 31 December 2015

As at 31 December 2015, AuM in the amount of CHF 58.6 billion (fair value as of the respective acquisition date) have been booked with the Group, whereof CHF 2.3 billion have been reclassified to assets under custody.

The transaction resulted in the recognition of goodwill and intangible assets (customer relationships) in the amount of CHF 813.2 million. This amount consists of the following components:

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

Therefore, the purchase price of CHF 982.1 million was paid for goodwill and intangible assets and net asset values of the acquired legal entities.

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

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

	Fair value CHF m
Purchase price	
in cash	690.5
in shares of Julius Baer Group Ltd.	291.6
Total	982.1
Assets acquired	
Cash	271.5
Due from banks	8,298.0
Loans ¹	4,000.5
Deferred tax assets	0.1
All other assets	158.3
Total	12,728.4
Liabilities assumed	
Due to banks	3,589.5
Due to customers	8,726.5
Deferred tax liabilities	26.6
All other liabilities	217.0
Total	12,559.5
Goodwill and other intangible assets related to legal entity acquisitions and to business transfers	
Goodwill	481.0
Customer relationships	332.2
Total	813.2

¹ At the acquisition dates, the gross contractual amount of loans acquired was CHF 4,000.5 million.

31 REQUIREMENTS OF SWISS BANKING LAW

The Group is subject to supervision by the Swiss Financial Market Supervisory Authority (FINMA), which requires Switzerland-domiciled banks using International Financial Reporting Standards (IFRS) as their primary accounting standard to provide a narrative explanation of the major differences between IFRS and Swiss GAAP. Swiss GAAP is based on the regulations of the Swiss Code of Obligation, on Swiss Banking Law and the Ordinance thereto, and on the guidelines of the FINMA Circular 2015/1 'Accounting Banks'.

Under IFRS, goodwill is not amortised but must be tested for impairment annually and a write-off is made if the recoverable amount is less than the

carrying amount. Under Swiss GAAP, goodwill is amortised over its useful life, generally not exceeding five years (in justified cases up to twenty years), and tested for impairment.

Swiss GAAP allows the application of IAS 19 for the accounting for defined benefit plans. However, the remeasurement of the net defined benefit liability is recognised in the income statement and comprises movements in actuarial gains and losses and return on plan assets (excluding net interest cost). Under IFRS, these components are recognised directly in equity.

32 EVENTS AFTER THE BALANCE SHEET DATE

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