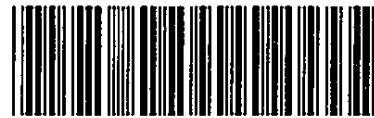


JULIUS BAER INTERNATIONAL LIMITED
Directors' Report and Financial Statements
For the year ended 31 December 2013

Registered Number 1120330

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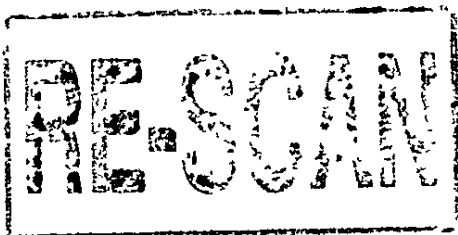
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Directors' report and financial statements

For the year ended 31 December 2013

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Registered Number 1120330

Directors' report

The directors present their report and the audited financial statements of Julius Baer International Limited ("the Company") for the year ended 31 December 2013

Principal activities

The Company's principal business is the marketing and provision of investment services to clients in the United Kingdom and overseas

The Company has its head office in London with a branch in Dublin which was established in April 2014

There have been no changes in the principal activity of the Company during the 2013 year and the directors expect the principal activity to continue in the foreseeable future

The Company reported a loss for the year of £22,255,810 (2012: £1,378,683 loss) that has been taken to reserves. The directors do not recommend the payment of a dividend in respect of the year under review (2012: Nil)

Directors and their interests

The directors who held office during the year and up to the date of approving these accounts were as follows

G Rossi

A Horowitz (appointed 1 July 2013)

J Berger

P Van Neste

S Bates

T Seiler

G Ruoss (appointed 2 May 2013)

D Savary (appointed 27 December 2013)

B Taylor (appointed 24 January 2014)

The directors had no interests in the shares of the Company

Registered Office

1 St Martin's Le Grand

London

EC1A 4AS

Strategic report

Operating & Business Environment

The Company concentrates on investment management operations to UK domestic and international clients on behalf of the Julius Baer Group ("the Group")

As a United Kingdom Authorised Firm the Company is regulated by the Financial Conduct Authority ("the FCA"). As it is regulated by the FCA, the Company is required to meet a number of financial resource requirements on an on-going basis

Corporate Objectives & Strategy

The Company intends to continue to build its marketing operation in London to increase its client base and its assets under management, and to offer its clients a high quality service and provide them with the appropriate investment products available in the market. In 2013 Julius Baer Group initiated the next phase of growth by acquiring Merrill Lynch's International Wealth Management (IWM) business outside the US from Bank of America.

This transaction represents a rare opportunity to acquire an international and focused wealth management business of significant size and will add substantial scale to the business. Post integration and on a pro forma basis, Julius Baer Group will be present in more than 25 countries and 50 locations. As of 31 December 2013 AuM in the amount of CHF52.8 billion have been transferred to the Julius Baer Group.

Risk & Uncertainties

The Company is open to external risk from any downward movement in the markets although products have been developed to reduce these risks. Excellent client service and performance needs to be maintained in order to retain clients.

On internal risk, it is important to retain key sales and investment staff by paying attention to the leadership competencies of management, the attractiveness of employment conditions, and targeted training and development measures.

Measurement & Performance

During 2013 the Company's client assets under management increased by £4,565 million, from £2,030 million at the end of 2012 to £6,595 million at the end of 2013, being an increase of 225%. A total of £4,148 million of assets under management were transferred to the Group's booking centres as a result of the Merrill Lynch integration.

Business Update

Bank of America Merrill Lynch, through its subsidiary Merrill Lynch & Co., Inc. and Julius Baer Group Limited, a company incorporated under the laws of Switzerland, with registered office at Bahnhofstrasse 36, CH 8001 Zurich entered into an agreement on 10 August 2012, in which Merrill Lynch agreed to sell to Julius Baer certain entities, businesses and assets, which together comprise Merrill Lynch's Global Wealth and Investment Management business outside of the US and Japan.

On 1st July 2013, the UK went through its applicable closing and 313 staff from Merrill Lynch joined Julius Baer. Client relationships and related assets under management of the UK business will transfer to the Julius Baer platforms in stages and in line with appropriate regulations. The process for the UK business is expected to be completed by the end of 2014.

Strategic report (continued)

Future Outlook & Plans

The Company is planning to grow the business further in 2014 by increasing its sales team and to make greater use of the Julius Baer product range in its offerings to clients.

The Board have received approval from the Julius Baer Group Limited Executive Board to adopt a growth strategy for the future with the necessary financial support to maintain the Company as a going concern.

Pillar 3 Disclosures

1. Overview

1.1. Introduction

The Capital Requirements Directive ("CRD") came into effect on 1 January 2007, and is the framework for implementing Basel II in the European Union. Basel II is an International Initiative aimed at implementing a more risk sensitive framework for the calculation of regulatory capital.

The CRD consists of three "pillars".

Pillar 1 sets out minimum capital requirements, by providing rules for the measurement of credit risk, market risk and operational risk.

Pillar 2 is a process for assessing capital adequacy in relation to actual risk profile and for determining whether additional capital is required to cover these risks. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP") document and the Supervisory Review and Evaluation Process by the Financial Conduct Authority ("FCA").

Pillar 3 focuses on disclosure requirements, including the key information required to allow external parties to assess the capital adequacy of the organisation.

In the United Kingdom, the FCA has introduced Pillar 3 by replicating the CRD articles and annexes to create Chapter 11 – Disclosure (Pillar 3) of the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

1.2. Basis of disclosures

In accordance with the requirements of Chapter 11 of BIPRU, the disclosures included in this document relate to Julius Baer International Limited.

The Company is a limited licence UK investment adviser and management company as it does not act as principal nor underwrite or place financial instruments on a firm commitment basis. As a UK financial services business authorised and regulated by the FCA, the Company is required to maintain adequate capital to cover the risks to the business in order to ensure clients' interests are protected. Also, by ensuring all regulated firms have adequate capital, the FCA hopes to meet its objective of stability and market confidence in the financial system.

The Company, whilst a member of a Swiss financial services (banking) group, is 100% directly owned by the Swiss entity Julius Baer Group Ltd. The Company has no subsidiaries. No consolidation is required.

The disclosures cover both the qualitative (e.g. processes and procedures) and quantitative (e.g. actual numbers) requirements.

Strategic report (continued)

1.3 Materiality

The rules provide that an entity may omit one or more of the required disclosures if it believes that the information is immaterial.

A disclosure is deemed to be material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where we considered a disclosure to be material we have stated this.

1.4 Frequency

The disclosures are required to be made on an annual basis at a minimum, and if appropriate some disclosures will be made more frequently. The Company has an Accounting Reference Date of 31 December, and disclosures will be made as soon as practical after this date.

1.5 Verification, media and location

These disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and to provide information about the management of certain risks and for no other purpose. They do not constitute any form of audited financial statement and have been produced solely for the purposes of Pillar 3.

These disclosures have been reviewed by the Directors of the Company.

2 Group Risk management framework and process

2.1 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 management therefore constitutes an integral part of the Group's business framework. It is supported by a number of risk-control procedures, which are seen as business enablers critical to the management process of the Group. The principal risks to which the Group is exposed are:

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

The Group's 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.

2.2 Risk governance

The Board of Directors of Julius Baer Group Ltd. defines the Group's risk policies and regularly reviews their appropriateness. This ensures that risks are managed effectively at Group level and that suitable processes are in place. The risk categories and the risk management processes as well as a common risk terminology for the Group are laid down in the Group Risk Policy. Specific Group policies are defined for particular risk categories.

Overall responsibility for the implementation of the Group's risk management lies with those members of the Executive Board of Julius Baer Group Ltd. with designated risk management duties – the Chief Risk Officer (CRO) and the General Counsel (GC). The CRO is responsible for the management and control of credit risk, market risk (trading book and banking book), liquidity and financing risk (particularly with regard to the banking book) and of operational risk (excluding legal and compliance risk). He coordinates his activities with the GC, who is responsible for the management and control of legal and compliance risk. In addition, the CRO and the GC coordinate their activities with the Chief Financial Officer (CFO), who is responsible for balance sheet management and capital management, i.e. the maintenance of a sound ratio of eligible capital to risk-weighted positions. The CRO and the GC establish appropriate risk guidelines and policies, coordinate and contribute directly to the risk management of the business areas and thus ensure that risk is controlled independently.

Strategic report (continued)

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

The Chairman's and Risk Committee's responsibilities principally include

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

The Audit Committee is responsible for the standards and methods applied to the control of operational risk (including legal and regulatory risks) in order to ensure compliance with the principles and risk profiles formulated by the Board of Directors or other relevant supervisory or managing bodies. The Audit Committee is also responsible for reviewing the Group's operational risk directives. The activities carried out in connection with these duties are based on the risk landscape formulated in accordance with the relevant risk directives. The Executive Board of the Group's principal operating entity, Bank Julius Baer & Co. Ltd, is responsible for measuring and supervising market, liquidity, financing and operational risks in the Group's banking activities.

Accordingly, its principal tasks are

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

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

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

The main responsibility for managing risks, however, primarily lies with the individual organisational units.

All risks are mapped to a risk landscape, which provides a consolidated picture of the probability of their occurrence and its potential impact. The individual organisational units are responsible for managing the risks to which they are exposed. The risk landscape is also used by the business areas, the Executive Board and the Board of Directors of Julius Baer Group Ltd and by Bank Julius Baer & Co. Ltd in their annual strategic planning process.

2.3 Strategic and business risk

Based on the principles of value and risk-oriented management and controlling, an annual strategic check-up is carried out, and the results are consolidated in the risk landscape. This check-up reviews the probability and impact of potential strategic and business risks and defines mitigating actions. The results are also used as an important input into the strategic planning process and thus influence the rolling three-year plan and hence the annual budgets.

2.4 Risk identification and assessment

Comprehensive risk assessments are in place throughout the Group. Risk assessments are owned and maintained by functional departments and are updated and reported to the Executive Board on an annual basis. Each risk exposure is evaluated specifically in terms of expected financial impact and likelihood/probability of crystallising and is prioritised accordingly. Management allocates and tracks mitigating actions where exposures are beyond tolerance or where controls are not operating effectively.

Strategic report (continued)

2.5 Risk mitigation

There is a strong risk management culture throughout the Group. Risks and mitigating internal controls are formally identified and assessed as part of the Risk Management Framework. Loss history and trends provide valuable input to on-going risk assessment. This continuous review of the quality of the internal control environment is supplemented by periodic Internal Audit reviews.

2.6 Monitoring and reporting

A Business Impact Analysis (BIA) is undertaken half yearly by the risk officer, with each department head (including the CEO for Management Functions), to assess the risks at the departmental level. Risks are detailed and potential consequences reported and then analysed through probability and financial impact. Controls and mitigating factors are then taken into consideration to state the final likelihood of the risk occurring together with the residual risk amount.

The results of the BIA filter through to the ICAAP reporting which is undertaken annually.

The full BIA is reviewed by the COO before it is consolidated into the Operational Risk Self-Assessment Form (ORSA) which forms part of the submissions to Group Risk in Zurich.

2.7 Capital assessment

The Company employs a number of risk mitigation techniques and activities, including robust systems and controls, monitoring activities, review of risk events, root cause analysis, contingency plans, insurance and capital. The ICAAP, which is performed annually or more frequently if changes to the business require it, is used to assess the adequacy of capital. It uses scenario modelling and stress testing to assess all risks faced by the business, taking into account any mitigants that are in place or could realistically be affected. Capital is then set aside to mitigate the potential impact of residual risks to a degree of confidence set by the Board.

2.8 Material Risks and Risk Appetite

The Company's appetite for risk is deemed to be low and in keeping with the overall risk policy of the Group. As a limited licence investment management firm which does not deal as principal nor hold clients' monies, the Company is primarily exposed to operational risk and reputational risk. With the exception of the risk of the withdrawal of the Company's holding company's essential support, no further material risks were identified by the ICAAP.

Risk arising from the remuneration policy was considered and was deemed to have no material impact.

3 Capital resources

3.1 Tier 1 Capital

Tier 1 capital is the highest ranking form of capital. Included in Tier 1 capital are permanent share capital, retained profits and other reserves.

The Company's capital resources comprise Tier 1 capital only.

As at 31 December 2013 the capital resources of the Company were as follows:

Tier 1	£m
Permanent Share Capital	48.3
Retained Losses	(37.8)
Other Reserves	5.5
Total	16.0

During the year the Company held capital resources in excess of their Pillar 1 regulatory capital requirements.

Strategic report (continued)

4 Capital adequacy

Capital is held to ensure the group maintains a suitable margin in excess of the capital requirement a) or b), whichever is the greater, below

- a) The Pillar 1 capital requirement as stated below,
- b) The Pillar 2 capital requirement (the ICAAP as referred to in 1.1), which is our own assessment of the minimum amount of capital that we believe is adequate to be held against the risks identified

4.1 Capital Resources and Requirement

The Company is a BIPRU limited licence investment firm with a base capital resources requirement of Eur €50,000. Due to the nature of its business, the Company's variable capital requirement is the Fixed Overhead Requirement ("FOR"), which is higher than the sum of its credit risk and market risk. This is expected to continue to be the case for the foreseeable future. The FOR is equal to one quarter of the firm's relevant fixed expenditure as set out in GENPRU 2.1.53 to GENPRU 2.1.59, and is normally based on its most recent audited annual report and accounts. As the last audited accounts only have results prior to the acquisition, it has been based on actual 2013 financials as it is deemed far more relevant.

For the 12 months to 31st December 2013, the FOR has been calculated at GBP £8,861.0k (CHF 12,817.4k) based on the Company's financial accounts for December 2013. (In comparison, as at December 2013, the credit and market risk resources requirement was calculated at approximately GBP £1,767.1k (CHF 2,556.1k). GENPRU 2.2.60 allows the base capital requirement to be met with capital that is also used to meet the variable capital requirement. The capital requirement is currently met by Tier 1 ordinary share capital issued in exchange for cash.

Results of our risk management process indicate that there is no further capital requirement under Pillar 2 to be added to the FOR calculation (Pillar 1). As a limited licence firm, the Company is exempt from minimum own funds requirement to hold capital to cover operational risk. While an analysis has been undertaken of other, non-operational risks (including all those mentioned in the FCA Handbook) all have been deemed minimal or non-existent. The backing of the Group holding company has been a key mitigating factor in the assessment.

5 Remuneration Disclosures

Under the FCA's Remuneration Code (the "Code"), the firm is classified as a Proportionality Level 3 firm, which allows it to disapply a number of the requirements of the Code and proportionately apply the Code's rules and principles in establishing the Company's policy.

The Code requires the Company to consider its processes and procedures for those senior staff that operate within Companies who are covered by the Code and whose professional activities have a material impact on the Company's risk profile (Code Staff).

The Company is satisfied that the policies in place are appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities.

5.1 Code Staff Criteria

The Company has identified those Approved Persons who fall within the criteria of Code Staff. This includes staff who are senior managers and risk takers, including those in a control function, who have significant responsibility for management and supervision, and staff whose total remuneration is in the same bracket as senior managers risk takers.

5.2 Information concerning the decision-making process used for determining the remuneration policy (including information about the role of the Board, the involvement of the Julius Baer Group Compensation Committee and the external consultant whose services have been used for the determination of the remuneration policy)

Strategic report (continued)

The Executive Board of the Group has ultimate responsibility on the Company's compensation policy and practices. In conjunction with the Company's Board of Directors, the Group ensures the Company's adherence to the FCA Remuneration Code. The Julius Baer Group Compensation Committee has oversight of the Group's Executive Board compensation activities. This 'combined governance approach' ensures that there is local responsibility for the Company's compensation arrangements but also ensures the alignment of these arrangements to the Group's policies and practices.

The Board does not retain external consultants although external consultants are used from time to time to advise on specific issues. The Board also receives advice from Human Resources and Senior Managers, who may provide relevant information and advice.

5.3 Information on the link between pay and performance

The primary compensation principles of the Company are to

- Attract, retain and motivate employees by providing a competitive compensation program which recognises and rewards strong performance,
- Align the interests of the Company's employees with the Group's shareholders,
- Encourage robust risk management.

The Company realises these principles in a number of ways including

- Targeting base salary towards the median of the market, to reward the level of education, the degree of seniority and the level of expertise and skills required to fulfil the role.
- Reviewing variable compensation in line with the individual, the team and the Group meeting qualitative and quantitative performance measures which are aligned to the long term health of the Company and the Group. These measures which rewards compliance and robust risk management,
- Utilising deferred variable compensation to ensure a meaningful percentage of a relevant employee's expected total compensation is tied to the overall success of the Group via share price which the performance of the Company would impact and to operate as a retention mechanism.
- Allowing the Board and Compensation Committee the discretion to revoke or reduce any unvested deferred shares in a range of circumstances including in relation to risk management and compliance.

5.4 Aggregate quantitative information on remuneration for Code Staff

For the year ending 31st December 2013 there were 17 Code Staff (as defined above).

Aggregate remuneration expenditure in respect of Code Staff was £3.6m.

Remuneration expenditure was divided between fixed and variable remuneration as follows:

- Fixed remuneration £1,410,200
- Variable remuneration £2,184,192

(Fixed remuneration consists of base salaries only while variable remuneration consists of regular payments of commission and bonus.)

6 Exempted disclosures

There are no disclosures relating to BIPRU 11.5.5 to 11.5.17 as they are either not relevant to the Company as a limited licence investment firm, or the amounts are immaterial as defined in section 1.3.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

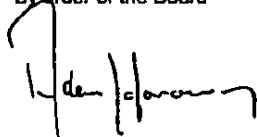
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting

By order of the Board



A Hoxowitz
Director
25 April 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JULIUS BAER INTERNATIONAL LIMITED

We have audited the financial statements of Julius Baer International Limited for the year ended 31st December 2013 set out on pages 13 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion,

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Ravi Lamba (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
25 April 2014

Julius Baer International Limited

Registration Number 1120330

Profit and loss account
for the year ended 31 December 2013

	Note	2013	2012
		£	£
Turnover	2	24,739,389	7,650,723
Operating expenses	2	(47,537,047)	(9,053,173)
Operating loss	3	<u>(22,797,658)</u>	<u>(1,402,450)</u>
Interest receivable		33,429	23,767
Loss on ordinary activities before taxation		<u>(22,764,229)</u>	<u>(1,378,683)</u>
Tax credit on loss on ordinary activities	7	<u>508,419</u>	<u>-</u>
Loss on ordinary activities after taxation	11	<u>(22,255,810)</u>	<u>(1,378,683)</u>

The Company has no recognised gains or losses other than the profit for the financial year, which is reported in the profit and loss account

The operating loss was derived from continuing operations

The notes on pages 15 to 26 form an integral part of these financial statements

Balance Sheet
as at 31 December 2013

	Notes	2013 £	2012 £
Tangible fixed assets	8	6,027,970	149,806
Current assets			
Debtors	9	14,529,333	2,578,604
Cash at bank		<u>14,122,244</u>	<u>5,345,363</u>
		28,651,577	7,923,967
Creditors amounts falling due within one year	10	<u>(18,685,888)</u>	<u>(1,824,304)</u>
Net current assets		9,965,689	6,099,663
Net assets		<u>15,993,659</u>	<u>6,249,469</u>
Capital and reserves			
Called up share capital		48,300,000	16,300,000
Capital reserve	11	5,515,731	5,515,731
Profit and loss account	11	(37,822,072)	(15,568,262)
Total equity shareholders' funds	12	<u>15,993,659</u>	<u>6,249,469</u>

The financial statements on pages 13 to 26 were approved by the board of directors on 25 April 2014 and were signed on its behalf by


A Horowitz
Director
25 April 2014

The notes on pages 15 to 26 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the period ended 31 December 2013

(forming part of the financial statements)

1 Accounting policies

Basis of preparation

The financial statements of Julius Baer International Limited ("the Company") have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) and under the historical cost convention. The going concern assumption has been used in the preparation of the financial statements as detailed in the Directors' Report. Julius Baer Group Limited as the ultimate shareholder of Julius Baer International has also affirmed its ongoing commitment to provide the Company with financial assistance to the extent necessary to meet its applicable regulatory capital requirements. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

As the Company is a wholly owned subsidiary of Julius Baer Group Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transaction or balances with wholly owned subsidiaries which form part of the group.

The company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (Revised 1998) – Cash Flow Statements, as a consolidated cash flow statement is included in the publicly available consolidated financial statements of the ultimate parent company Julius Baer Group Limited.

Turnover

Turnover represents fee income generated from client relationship and investment services provided on behalf of other Group companies and is recognised as earned.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

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 are non-market performance vesting conditions are expected to be met.

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

Pension costs

The Company's post-retirement benefit arrangements are described in note 6. The Company participates in both a defined benefits scheme (Julius Baer UK Staff Pension and Life Assurance Scheme) and a defined contribution scheme (Julius Baer UK Stakeholder Pension Scheme). For defined contribution schemes, the contribution payable in respect of the accounting period is recognised in the profit and loss account.

The defined benefit scheme in which the Company participates is accounted for by the Sponsoring Company (Julius Baer Group AG) using the option permitted by the amendment made to FRS 17 - Retirement Benefits, whereby actuarial gains and losses are recognised outside profit or loss and presented in the statement of recognised income and expense. The amount recognised in the Sponsoring Company's balance sheet in respect of the defined benefit scheme is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of the plan's assets, if any. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The obligation's present value is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

However, as there is no contractual agreement or stated policy for charging the net defined benefit cost for the plan as a whole to the Company, the Sponsoring Company recognises the entire net defined benefit cost of the plan in its accounts. The Company recognises as a cost the contribution payable for the period.

Taxation

The charge for current taxation is based on the loss for the year. Deferred tax is provided in respect of all differences in timing between the accounting and tax treatments of income and expenses, at the rate of taxation expected to be ruling when the differences reverse. Deferred tax assets are recognised when it is more likely than not that they are recoverable. Deferred tax is measured on a non-discounted basis.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Fixed assets and depreciation

Fixed assets are depreciated on a straight-line basis at rates calculated to write them off over their expected useful economic lives as follows:-

	Years
Computer hardware and software	3
Leasehold improvements	10
Furniture and fixtures	5

2 Analysis of turnover and operating expenses

	2013	2012
	£	£
Turnover		
Management Fees	24,790,116	7,773,896
Other ordinary income	(50,727)	(123,173)
	<u>24,739,389</u>	<u>7,650,723</u>
Operating Expenses	£	£
Staff Costs	(32,196,651)	(5,642,147)
Administrative Expenses	(15,340,396)	(3,411,026)
	<u>(47,537,047)</u>	<u>(9,053,173)</u>

The aggregate value of any company contributions paid, or treated as paid, to a pension scheme in respect of directors' qualifying services, being contributions by reference to which the rate or amount of any money purchase benefits that may become payable will be calculated (ie company contributions to money purchase schemes)

3 Operating profit/(loss)

	2013	2012
	£	£
Operating profit/(loss) is stated after charging		
Auditor's remuneration - audit services	21,150	20,600
Auditor's remuneration - other services pursuant to legislation	4,100	4,000
Depreciation	450,209	37,049

4 Directors' emoluments

	2013	2012
	£	£
Emoluments (including compensation costs)	1,538,232	207,250
Pension contributions	44,291	15,583

The number of directors who had retirement benefits accruing in respect of qualifying services to a pension scheme was 4 (2012: 1)

The number of directors who received shares under long term incentive schemes in respect of qualifying services was 3 (2012: Nil)

The highest paid director received emoluments of £601,092 (2012: £207,250)

The highest paid director received long term incentive shares to the value of £100,006 (2012 Nil)

During the financial period the highest paid director did not exercise share options

The number of directors to whom retirement benefits were accruing was Nil (2012 Nil)

5 Employee numbers and costs

The average monthly number of persons employed by the company (including directors) during the year, analysed by category, was as follows -

Employee numbers	2013	2012
Management	5	2
Marketing and Asset Management	62	15
Middle Office	14	11
Support Staff	105	11
	<u>186</u>	<u>39</u>

	2013	2012
	£	£
Employee costs		
Salaries and benefits	27,392,138	4,785,376
Social security costs	3,256,057	485,126
Other pension costs (see note 6)	1,548,456	371,645
	<u>32,196,651</u>	<u>5,642,147</u>

6 Pension costs

The Company is a member of a Group defined benefits scheme, the Julius Baer UK Staff Pension and Life Assurance Scheme, which is operated by Julius Baer Group AG for the benefit of employees of certain Julius Baer group companies in the United Kingdom. The scheme was closed to new entrants in April 2005, and a defined contribution scheme was established with effect from April 2005. The assets of the Schemes are held separately from those of the Group and are administered by trustees. The costs of running the Schemes are assessed with the advice of independent actuaries.

As there is no contractual agreement or stated policy for charging the net defined benefit cost to participating Julius Baer Group companies, the Company only recognises in its accounts the contributions it makes during any given financial period.

The Company's total pension charge in the period amounted to £1,548,456 (2012: £371,645) of which £102,225 (2012: £155,185) related to the above defined benefit section, £1,446,201 (2012: £216,460) related to the defined contribution section.

With effect from 31 July 2013, the Scheme closed to future accrual of benefit so that all active members of the Scheme at this time became deferred members. Their benefits accrued to the date of closure are no longer linked to future increases in salary; instead they will receive statutory increases up to their retirement.

Composition of the pension scheme

A full actuarial valuation was carried out at 28 February 2013. An interim valuation as at 31 December 2013 was carried out at 2 April 2014. The major assumptions used by the actuary were:

	31 December 2013	31 December 2012
Rate of increase in salaries	n/a	3.40%
Rate of increase in pensions payment	3.25%	2.80%
Discount rate	4.70%	4.50%
Inflation assumption (RPI)	3.35%	2.90%

The following amounts at 31 December 2013 were measured in accordance with the requirements of FRS 17:

The assets in the Scheme and the expected rate of return were:

	Long-term rate of return expected at 31 December 2013	Long-term rate of return expected at 31 December 2012	Value at 31 December 2013	Value at 31 December 2012
Equities	6.45%	5.30%	17,366	14,783
Government Bonds	3.20%	2.05%	3,624	6,277
Corporate Bonds	4.45%	4.25%	16,811	11,387
Cash	0.25%	0.25%	152	1,852
Total market value of assets (£000)			37,753	34,299
Present value of liabilities (£000)			(35,713)	(35,568)
Surplus/(Deficit) in the Plan before tax (£000)			2,040	(1,269)

The assets in the Scheme are included in the financial statements of Julius Baer Group Limited.

7 Tax credit on profit/(loss) on ordinary activities
Analysis of charge in period

	2013 £	2012 £
Current tax		
UK corporation tax	<u>(508,419)</u>	<u>-</u>
Tax credit on ordinary activities	<u>(508,419)</u>	<u>-</u>
Factors affecting the tax charge for the period		
Loss on ordinary activities before tax	<u>(22,764,229)</u>	<u>(1,378,683)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	<u>(5,292,684)</u>	<u>(337,777)</u>
Effects of		
Expenses not deductible	44,508	34,904
Capital allowances in excess of depreciation	(136,263)	(2,532)
Unutilised current year losses	4,870,494	305,405
Group relief adjustment	<u>5,526</u>	<u>-</u>
Current tax credit for the period	<u>(508,419)</u>	<u>-</u>

8 Tangible fixed assets

	Furniture & Equipment	Leasehold Improvements	Total
Cost			
As at 01.01 2013	264,619	353,872	618,491
Additions	1,640,306	4,688,067	6,328,373
Disposals	-	-	-
As at 31.12.2013	<u>1,904,925</u>	<u>5,041,939</u>	<u>6,946,864</u>
Depreciation			
As at 01.01 2013	260,090	208,595	468,685
Charge for the year	192,941	257,268	450,209
Disposals	-	-	-
As at 31.12.2013	<u>453,031</u>	<u>465,863</u>	<u>918,894</u>
Net Book Value			
As at 31.12.2013	<u>1,451,894</u>	<u>4,576,076</u>	<u>6,027,970</u>
As at 01.01 2013	<u>4,529</u>	<u>145,277</u>	<u>149,806</u>

9 Debtors

	2013 £	2012 £
Amounts owed by group undertakings	4,770,834	1,959,352
Other debtors	9,758,499	326,852
Prepayments and accrued income	-	292,400
	<u>14,529,333</u>	<u>2,578,604</u>

10 Creditors: amounts falling due within one year

	2013 £	2012 £
Amounts due to group undertakings	3,941,914	131,868
Accruals and deferred income	14,743,974	1,692,436
	<u>18,685,888</u>	<u>1,824,304</u>

11 Reserves

	Capital reserve	Profit and loss account	Total
	£	£	£
At 1 January 2013	5,515,731	(15,566,262)	(10,050,531)
Loss on ordinary activities after taxation	-	(22,255,810)	(22,255,810)
At 31 December 2013	<u>5,515,731</u>	<u>(37,822,072)</u>	<u>(32,306,341)</u>

12 Reconciliation of movements in equity shareholders' funds

	2013 £	2012 £
Loss for the financial year	(22,255,810)	(1,378,683)
Capital contribution	32,000,000	-
Net (reduction in)/addition to shareholders' funds	<u>9,744,190</u>	<u>(1,378,683)</u>
Opening equity shareholders' funds	<u>6,249,469</u>	<u>7,628,152</u>
Closing equity shareholders' funds	<u>15,993,659</u>	<u>6,249,469</u>

13 Deferred taxation

There is an overall potential deferred tax asset in the period in respect of tax losses carried forward and other timing differences at the year end. This potential deferred tax asset is calculated after taking into account the offset of a deferred tax liability of £421,826 in respect of capital allowances in excess of depreciation. The value of this potential deferred tax asset as at 31 December 2013 is £6,021,234 (2012: £2,234,244). However, this asset has not been recognised as there are insufficient grounds to conclude that the asset will be recoverable as there is uncertainty as to the future levels of taxable profits.

14 Leases

As at 31 December 2013, the Company had annual commitments under non-cancellable operating leases in respect of premises set out below:

	Land and buildings 2013 £	Land and buildings 2012 £
Within one year	1,572,373	173,257
Two to five years	6,289,492	-
After five years	6,813,616	-
	<u>14,675,481</u>	<u>173,257</u>

15 Parent undertakings

The Company's immediate and ultimate parent company and controlling party is Julius Baer Group Limited ("Julius Baer"), a company incorporated in Switzerland. The parent company of the largest and smallest groups that include the company and for which group financial statements are prepared is Julius Baer. Copies of Julius Baer's financial statements can be obtained from the Company Secretary at Bahnhofstrasse 36, 8010 Zurich.

16 Share based payments

Julius Baer sponsors several employee compensation plans that provide eligible employees with stock-based compensations or options to purchase stock. The programmes described below reflect the plan landscape as at 31 December 2013. All plans are reviewed annually to reflect any regulatory changes and/or market conditions.

Until vesting, the granted shares are administered by the Loteco Foundation. Loteco Foundation hedges its liabilities on grant date by purchasing the shares from the market.

Staff Participation Plan

Through this plan, participants purchase Julius Baer shares at market price and for every three shares purchased they will receive one share free of charge. These free shares vest after three years, subject to continued employment. Purchase through the Staff Participation Plan is possible once a year.

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

Premium Share Plan

The Premium Share Plan (PSP) is a three-year deferred equity plan which applies to senior members of staff whose variable compensation amounts to CHF 150,000 or more (or the local currency equivalent). A PSP grant is made once a year as part of annual variable compensation and participation is determined on an annual basis. The plan is designed to link and tie a portion of the employee's variable compensation to the long-term development and success of the Group through its share price. At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or the local currency equivalent) of the employee's variable incentive is deferred to the PSP, and the employee is then granted a number of shares equal in value to the deferred element.

These shares vest in equal one-third tranches over a three-year plan period. At the end of the plan period, subject to continued employment, the employee receives an additional share award representing one third of the number of shares granted to him/her at the beginning of the plan period.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage. No special dividends or capital increases were allocated in the fiscal year 2013.

Incentive Share Plan

The Incentive Share Plan (ISP) was applied for the first time to the members of the Executive Board and selected key staff as part of the variable compensation for 2010. The following paragraphs describe the modified ISP applied to grants made as part of variable compensation for 2012 for the last time.

At the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or the local currency equivalent) of the executive's variable incentive was deferred to the ISP and the employee was then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Also at the start of the plan period, the executives are granted one performance unit (PU) for each granted ISP share which, subject to the achievement of the predefined targets and continued employment, vest at the end of the three-year performance period and are settled in the form of Julius Baer Group shares. At settlement the number of these additional shares can be between zero and two times the number of PUs for plan participants other than members of the Senior Management and of the Executive Board of Bank Julius Baer and zero to four times the number of PUs for members of the Senior Management and of the Executive Board of Julius Baer. The final ratio between the granted PUs and the number of shares at settlement is determined by a final payout factor which is derived from the two KPIs which both carry equal weight in determining the final payout factor.

Until vested, the PUs/shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

Deferred variable compensation plans since 2013. The premium share plan and the incentive share plan described below are granted annually and are mutually exclusive, i.e. an employee can only receive a grant from one of the plans in any given year. The premium share plan as applied in previous years did not change.

Incentive Share Plan (applied as part of the variable compensation for 2012)

In order to simplify the plan and to increase its transparency and considering the current market trends, the ISP applied to grants made as part of variable compensation for 2012 has been modified and is different from the one applied for 2010 and 2011.

As in previous years, at the start of the plan period, 15% to 40% (the maximum deferral percentage applies to variable compensation of CHF 1.0 million and above or the local currency equivalent) of the executives' variable incentive is deferred to the ISP and the employee is then granted a number of shares equal in value to the deferred element. These shares vest in equal one-third tranches over the three-year plan period, subject to continued employment.

Instead of performance units which were granted as part of the ISP 2010 and 2011 as an additional incentive, participants in the ISP 2012 are granted a pre-fixed number of incentive shares, which cliff-vest at the end of the three-year plan period, subject to continued employment. The number of incentive shares granted is determined based on the number of shares from bonus deferral: members of the Executive Board were eligible for twice the number of additional shares in comparison to participants who are not members of the Executive Board.

Until vested, the shares are subject to forfeiture in certain circumstances including resignation by the employee, termination for cause, substantial breaches of legal or regulatory requirements, financial losses and a variety of other events where the employee's behaviour has substantially contributed to a financial loss of the Group or caused reputational damage.

No special dividends or capital increases were allocated in the fiscal year 2013.

The Compensation Committee approved the list of ISP participants and the individual allocations as part of the variable compensation for 2012 on 22 January 2013.

Integration Incentive Award (for former Merrill Lynch financial advisors only)

As part of the Bank of America Merrill Lynch acquisition, key financial advisors from Bank of America Merrill Lynch were offered participation in the Integration Incentive Award (IIA, a cash- and equity-based plan) which was designed to incentivise individuals to join Julius Baer and move clients and assets to Julius Baer.

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

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

Long-Term Incentive Plan

In some specific situations the Group may offer incentives outside the annual compensation round. Situations such as compensating new hires for deferred awards forfeited by their previous employer due to resignation and retention payments to key employees during extraordinary or critical circumstances may be addressed by granting individuals an equity-based long-term incentive. A Long-Term Incentive Plan (LTIP) granted in these circumstances generally runs over a three-year plan period. The Group currently operates two different vesting schedules for this plan: (1) three equal one-third tranches vesting over a three-year period, or (2) cliff-vesting of all granted shares in one single tranche at the end of a three-year period.

The shares are transferred to participants at vesting, subject to continued employment and any other conditions set out in the plan rules. Shares granted in LTIPs prior to September 2012 remain blocked from sale until the third anniversary of the grant; shares granted post September 2012 and in 2013 are free from restrictions upon vesting. In case of termination of employment before the end of the plan period for any other reason than death, disability or retirement, unvested shares are forfeited. No special dividends or capital increases were allocated in the fiscal year 2013.

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

	2013	2012
Staff Participation Plan		
Unvested shares outstanding, at the beginning of the year	225	-
Granted during the year	174	225
Vested during the year	-	-
Forfeited during the year	-	-
Unvested shares outstanding, at the end of the year	399	225
Weighted average fair value per share granted (GBP)	25.72	24.70
Fair value of outstanding shares at the end of the year (GBP)	11,605	6,544
	2013	2012
Long-Term Incentive Plan		
Unvested shares outstanding, at the beginning of the year	-	-
Granted during the year	43,322	-
Vested during the year	-	-
Forfeited during the year	(2,145)	-
Unvested shares outstanding, at the end of the year	41,177	-
Weighted average fair value per share granted (GBP)	30.37	-
Fair value of outstanding shares at the end of the year (GBP)	1,197,626	-
	2013	2012
Premium Share Plan		
Unvested shares outstanding, at the beginning of the year	8,178	-
Granted during the year	5,905	8,178
Vested during the year	(2,519)	-
Forfeited during the year	(1,192)	-
Unvested shares outstanding, at the end of the year	10,372	8,178
Weighted average fair value per share granted (GBP)	25.84	25.18
Fair value of outstanding shares at the end of the year (GBP)	301,668	205,956

	2013	2012
Integration Incentive Award		
Unvested shares outstanding, at the beginning of the year	-	-
Granted during the year	148,226	-
Vested during the year	-	-
Forfeited during the year	-	-
Unvested shares outstanding, at the end of the year	148,226	-
Weighted average fair value per share granted (GBP)	27.26	-
Fair value of outstanding shares at the end of the year (GBP)	4,311,127	-
Compensation expense recognised for the various share plans are:		
	2013	2012
	£	£
Compensation expense		
Staff Participation Plan	3,060	1,493
Long-Term Incentive Plan	321,455	-
Premium Share Plan	130,008	102,960
Integration Incentive Award	438,085	-
Total	892,608	104,453

17 Post balance sheet events

Bank of America Merrill Lynch, through its subsidiary Merrill Lynch & Co., Inc. and Julius Baer Group Limited, a company incorporated under the laws of Switzerland, with registered office at Bahnhofstrasse 36, CH 8001 Zurich entered into an agreement on 10 August 2012, in which Merrill Lynch agreed to sell to Julius Baer certain entities, businesses and assets, which together comprise Merrill Lynch's Global Wealth and Investment Management business outside of the US and Japan

As part of the Transaction, the Company has been granted permission by the FCA and the Central Bank of Ireland to set up a physical presence in Ireland (Block D, Central Park, Leopardstown, Dublin 18, Ireland)

The Ireland Branch was registered with the Irish Companies Registration Office under the name "Julius Baer International Limited – Ireland Branch" on 17 February 2014

The Ireland Branch's applicable completion occurred at the close of business on 11 April 2014