



ANNUAL REPORT

2014

dettaglio: E. Vedova



# ANNUAL REPORT 2014

Presented to the Annual General Meeting of Shareholders on 14 April 2015

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## MANAGEMENT BODIES

### Board of Directors

Chairman	Claudio Sulser (*)	Lugano
Vice chairman	Andrea Zanni (**)	Lugano
Members	Camilla Fasolo Zarattini Peter Heckendorn (*) (**) Francesco Renne (*) (**)	Collina d'Oro Ascona Varese (I)

### Management

CEO	Flavio Quaggio
Deputy CEO	Roberto Fior Ivan Mattei Andrea Terzariol

### Statutory Auditor

Ernst & Young SA, Lugano

### Internal Auditor

PricewaterhouseCoopers, Lugano

\* Independent directors, in accordance with FINMA Circular 2008/24

\*\* Members of the Audit Committee, Chairman Peter Heckendorn

## BOARD OF DIRECTORS' REPORT 2014

Dear Shareholders,

The year 2014 saw both growth and improvement in the global economy, albeit in a fairly mixed manner.

The United States is at a more advanced stage in the cycle, characterised by a drop in unemployment and by expectations that are possibly a bit too optimistic.

Europe has modest growth, serious structural problems and some extreme risks, such as Greece and Ukraine, but expectations are fortunately improving.

The situation in the emerging countries is not uniform: average growth is still positive, but some countries are suffering from both the strong dollar and the fall in the prices of oil and the main commodities. By contrast, these factors are having a positive impact in Europe.

The horrendous crisis of 2008 is over now almost everywhere, but the total amount of debt, which may have been the primary reason for the crisis in the first place, has in fact increased in most countries, both in absolute terms and in relation to gross domestic product.

Only in a few "virtuous" cases has there been a certain amount of reduction in debt, at least by comparison with the size of the economy, thanks to growth.

In general, the total amount of debt has constantly increased. There has merely been a transfer of debt from one group to another, for example, from the big banks to states and from companies to consumers.

Japan and Europe have initiated unprecedented expansionary measures, taking the place of the United States, which has meanwhile stopped flooding the financial markets with liquidity.

The usefulness of this liquidity is decreasing along with its price. Indeed, benchmark interest rates in some of the main currencies, including the Swiss franc, are not just zero but in fact negative.

This formidable new paradigm and the continual fall in inflation have broken an economic taboo: negative nominal yields have become commonplace, not an extraordinary feature typical of periods of panic.

Back in late 2014, a substantial proportion of European government bonds, both in euros and Swiss francs, offered negative yields, even for medium-term instruments. In the first few months of 2015, the number of bonds offering negative yields increased even more.

Unfortunately, this situation indefinitely defers any solution to the debt problem.

The general climate for financial investments was positive in 2014, although not without some dips along the way and sudden spikes in volatility.

Government bonds were up sharply, especially in European countries, thanks to the reduction in long-term interest rates and the narrowing of risk spreads.

Shares closed the year with a major rally in the United States, but performed less brilliantly in Europe and the emerging countries.

Towards the end of the year, hopes for quantitative easing in Europe as well started to spread. This led to a revaluation of European shares, which until then had been influenced by the less-than-stellar outlook for corporate earnings and hazy economic expectations.

While expectations of quantitative easing had been frequently disappointed by the European Central Bank, they were finally fulfilled: EUR 60 billion per month in bond purchases for a minimum of two years was announced. In less indebted countries, which probably don't need this intervention, debt issues will not even be sufficient to satisfy this new source of demand for bonds.

The announcement exacerbated the downturn of the already weakened euro against all currencies, especially the US dollar. In compensation, the value of all financial assets in euro shot up and



economic expectations improved. Although the euro's devaluation was achieved in a more creative and less conventional manner than in the past, it basically reminds us of previous classical devaluations: the Europeans are now poorer but happier, and perhaps even the ill-fated peripheral countries will be able to regain some competitiveness.

Competitive devaluation of currencies may alleviate some temporary problems in limited areas and in extraordinary conditions, but it is not a sustainable means of achieving growth, because it tends to be a zero-sum game, which in most cases proves negative for the countries with weak currencies. The management activities of Banca Zarattini & Co generally produced satisfactory results, above all in directional strategies and strategies correlated to risks and classical market opportunities.

In 2014, the Swiss franc-euro exchange rate remained above the 1.20 floor set by the Swiss National Bank. This facilitated currency risk hedging and made Banca Zarattini & Co's earnings trend less volatile.

Positive exposure to the euro in the Bank's assets has always been maintained in recent years. The Swiss franc's tendency to slowly move ever closer to the floor during the year, which was surprising but also worrying, prompted our decision to gradually decrease Swiss franc exposure, especially during the second half.

Following the SNB's unexpected move in January 2015 to surrender to the impending European quantitative easing and halt its tricky task of defending the 1.20 floor, the Swiss franc probably saw the fastest and furthest rise in its long and glorious history. Appreciation was instant, even exceeding the 30% mark for a few minutes, as the franc hit a new all-time high at 0.8.

After several days, the franc retreated back below the level of the euro again, but still remains 10% higher than the floor, which the SNB had been defending for some time with "unlimited purchases of foreign currencies". By contrast, the US dollar's considerable strength allowed it to fully recoup the losses it made in January.

Now that the franc is free to fluctuate against the euro, greater discipline will be required in hedging activities, with a return to the strategies used prior to 2012.

The euro's fall against the Swiss franc will have a negative effect on Banca Zarattini & Co, as it will most probably result in a decrease in earnings for 2015.

Although we expect results to be lower in 2015, we can comment positively on the past year, in which your Bank posted its best results in ten years: net profit for 2014 was CHF 3,398 million, up by 18% compared with 2013.

The Bank's financial solidity remained very satisfying throughout 2014, as can be seen in its Tier I ratio at the end of the year, which was above 26%.

Various challenges await your Bank: several projects and initiatives will be launched during 2015 to consolidate and boost the Bank's activities, in a sector that is in constant flux.

This will require a great deal of professionalism and dedication on the part of the Bank's employees. We would like to thank them warmly for the quality of their work to date and encourage them to continue with the same team spirit and commitment that they demonstrated in the past year.

We would naturally also like to thank our clients for the trust they have placed in our Bank and promise to do our utmost to reward that trust by guaranteeing them a high level of service.

The Board of Directors  
Banca Zarattini & Co. SA

Lugano, 24 March 2015

## BALANCE SHEET AS AT 31 DECEMBER 2014

	31.12.2014 CHF	31.12.2013 CHF
<b>Assets</b>		
Cash	26,098,578	8,096,617
Money market instruments	-	298
Due from banks	170,733,552	223,560,364
Due from clients	94,981,724	89,407,090
Mortgage loans	11,311,100	13,197,600
Securities and precious metals trading portfolio	23,620,603	21,831,200
Financial investments	68,255,010	89,375,976
Fixed assets	13,138,143	14,003,764
Accrued income and prepaid expenses	2,577,256	3,278,115
Other assets	3,151,237	2,000,542
<b>Total assets</b>	<b>413,867,203</b>	<b>464,751,566</b>
<i>Total due from group companies and significant shareholders</i>	<i>28,257</i>	<i>100</i>
<b>Liabilities</b>		
Liabilities pertaining to money market instruments	-	300
Due to banks	162,663	495,423
Other amounts due to clients	326,314,955	383,437,790
Accrued liabilities and prepaid expenses	10,310,158	7,901,128
Other liabilities	5,332,705	3,096,935
Value adjustments and provisions	2,438,000	2,307,000
Reserve for general banking risks	10,470,000	9,370,000
Share capital	20,000,000	20,000,000
General legal reserve	5,232,750	5,062,500
Other reserves	30,207,403	30,207,403
Retained earnings	337	440
Profit/-loss for the period	3,398,232	2,872,647
<b>Total liabilities</b>	<b>413,867,203</b>	<b>464,751,566</b>
<i>Total due to group companies and significant shareholders</i>	<i>5,454,768</i>	<i>3,541,409</i>
<b>Off-balance sheet operations</b>		
Contingent liabilities	5,159,343	13,601,529
Irrevocable commitments	1,598,000	1,506,000
Fiduciary transactions	8,422,688	11,040,828
Derivative instruments		
Positive replacement values	1,674,740	616,185
Negative replacement values	1,642,864	507,552
Contract volume	93,629,089	92,437,807

## INCOME STATEMENT 2014

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	31.12.2014 CHF	31.12.2013 CHF
Interest and discount income	1,617,646	1,634,571
Interest and dividend income on trading portfolio	128,163	89,279
Interest and dividend income on financial investments	1,055,680	502,495
Interest expense	-13,777	-9,885
<b>Total net interest income</b>	<b>2,787,712</b>	<b>2,216,460</b>
Commission income on credit transactions	82,048	191,437
Commission income on securities and investment transactions	22,425,345	24,362,184
Commission income on other services	422,019	324,512
Commission expenses	-7,636,305	-9,107,916
<b>Total net income from commissions and service fee activities</b>	<b>15,293,107</b>	<b>15,770,217</b>
<b>Breakdown of income on trading operations</b>	<b>6,909,786</b>	<b>4,880,014</b>
Net income on disposal of financial investments	4,750	-3,333
Net income from fixed assets	427,255	336,368
Other ordinary expenses	-11,850	-190,527
<b>Other ordinary results</b>	<b>420,155</b>	<b>142,508</b>
Personnel expenses	-12,576,938	-12,386,717
Operating expenses	-5,630,076	-4,752,018
<b>Total operating expenses</b>	<b>-18,207,014</b>	<b>-17,138,735</b>
<b>Gross profit</b>	<b>7,203,746</b>	<b>5,870,464</b>
Depreciation and write-offs of fixed assets	-1,542,685	-1,128,109
Value adjustments, provisions and losses	-131,000	-37,000
<b>Intermediate income</b>	<b>5,530,061</b>	<b>4,705,355</b>
Extraordinary income	7,229	17,839
Extraordinary expenses	-1,100,000	-1,108,472
Taxes	-1,039,058	-742,075
<b>Profit/-loss for the period</b>	<b>3,398,232</b>	<b>2,872,647</b>



## ALLOCATION OF PROFITS AS AT 31 DECEMBER 2014

(proposal of Board of Directors)

	31.12.2014 CHF	31.12.2013 CHF
Retained earnings	337	440
Profit/-loss for the period	3,398,232	2,872,647
<b>Retained earnings available for distribution by the General Shareholders' Meeting</b>	<b>3,398,569</b>	<b>2,873,087</b>
Distribution of dividends	-3,180,000	-2,702,500
Allocation to general legal reserve	-218,000	-170,250
<b>Retained earnings to be carried forward</b>	<b>569</b>	<b>337</b>



# NOTES AS AT 31 DECEMBER 2014

## 1. Information about activity

The information refers to the status as at 31 December 2014.

### General information

Banca Zarattini & Co. SA is authorised to carry out banking activities by a decision dated 28 June 2005 of the Swiss Federal Banking Commission, now known as FINMA (Swiss Financial Market Supervisory Authority).

The company was founded in Lugano in 1991 under the name "Zarattini & Co. SA". On 28 November 2001, it acquired a licence to trade securities and, since 2001, has therefore been subject to supervision by FINMA, the Swiss Financial Market Supervisory Authority.

These financial statements have been prepared in accordance with the Swiss Federal Law on Banks and Savings Bank (Banking Act, BA), the Swiss Ordinance on Banks and Savings banks (Banking Ordinance, BO), FINMA Circular 2008/2 "Accounting - banks", the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA) and the Swiss Code of Obligations (CO).

The Bank's registered office is at Via Pretorio 1 in Lugano; reception for Private Banking and the administrative offices are located at Via Serafino Balestra 17, Lugano.

### Bank's activities

The Bank's main activity is private banking, whereby it offers clients a comprehensive range of services relating to administration and asset management, investment advice and securities brokerage, and asset management on behalf of investment funds. It also carries out all related transactions in both Switzerland and abroad.

The Bank is active in the brokerage of fixed income securities, with institutional counterparties from Switzerland and around the world, via an operational area specialising in proprietary trading (concurrent buying and selling) of bonds.

Lending to clients is a secondary activity, limited in principle to lombard loan facilities or loans secured against easily realisable assets. Mortgage lending is marginal and solely relates to properties in Switzerland.

### Headcount

At the end of 2014, the Bank had 71 employees (end 2013: 70 employees), representing 69.75 full-time equivalents.

### **Risk control and management**

The risk management policy is set by the Board of Directors and forms the basis for the Bank's risk management process. Risk management is an integral part of the Bank's corporate strategy, which is aimed at preserving equity, promoting profitability and increasing the Bank's value.

The Executive Board is committed to fostering a culture of risk containment at all levels of the organisation.

The Risk Committee and the Risk Management department are responsible for implementing the risk policy prepared by the Executive Board and approved by the Board of Directors. Specifically, the Risk Committee is the organisational unit responsible, in principle, for controlling the risks incurred by the Bank. The Executive Board has therefore delegated some of its responsibilities to the Risk Committee, which is in charge of the oversight, measurement and analysis of the risks assumed by the Bank, as well as controlling compliance with the risk policy stipulated by the Board of Directors.

In executing its oversight responsibilities, the Board of Directors draws on the support of Internal Audit, which is the main tool for monitoring and controlling the Bank as a whole. Internal Audit is an integral part of the Bank's Internal Control System. Internal Audit examines whether the business is performing in accordance with the intentions and decisions of the managing bodies, whether the Bank's activities are being conducted systematically, safely, efficiently, in accordance with legislation and within an appropriate organisation. As such, it provides important information for assessing whether the Bank has an effective internal control system that is appropriate for its risk profile.

### **Risk assessment**

Every year, the Board of Directors carries out a detailed analysis of the risks to which the Bank is exposed and performs a continuous assessment, assisted by the Internal Audit Committee.

The Board of Directors carried out regular risk assessments as required and took the necessary measures to ensure that there was a low risk of a significant error in the annual accounts.

The Board of Directors also carried out a forward-looking assessment of the risks to which the Bank might subsequently be exposed, and implemented in advance appropriate measures to contain future risks.

**Risk types**

Risks are defined and divided into categories, each of which is assigned a limits structure, which is constantly checked.

The Executive Board has oversight and is responsible for communicating with the Board of Directors, which receives regular information about the situation and changes in all risks.

*Credit risk* is limited to lombard loan facilities and loans secured against easily realisable assets, with prudent loan-to-value margins according to the type and market value of the assets given in pledge. As regards loans to banking counterparties, management of credit risk forms part of the broader counterparty risk management performed on a continual basis by the Board of Directors, which takes prudent decisions based on carefully prepared internal studies and on ratings provided by the main rating agencies. The Bank also has regulations and procedures that establish the responsibilities for granting loans.

*Market risk*, principally relating to currency and securities positions, is subject to limits in specific regulations and internal directives that set restrictions on the departments involved. The positions are monitored on a daily basis.

*Interest rate risk* is managed by the ALM Committee in accordance with the balance sheet structure.

*Operational risk* is managed by way of regulations and internal directives. Control activities form part of day-to-day work. The Compliance Officer checks constantly to ensure compliance with internal regulations and due diligence duties.

Internal Audit, on the instructions of the Board of Directors, verifies the validity of the procedures. The Bank has a Business Continuity Plan designed to ensure that it can continue operating should an exceptional event occur that reduces the availability of personnel, offices or infrastructure, including the IT systems.

To manage *settlement risk*, the Bank uses appropriate investment and bank instruments designed to ensure that the risk is kept to a minimum.

*Specific risks relating to proprietary trading* (concurrent buying and selling) are mitigated by Risk Management on a daily basis using specific regulations.

## 2. Outsourcing

Banca Zarattini & Co. SA has outsourced some of its operations relating to the management of S.W.I.F.T. communications to BBP AG, Baden.

## 3. Accounting principles and policies

### General principles

The criteria used for preparing accounts, balance sheet reporting and valuations comply with prevailing legislation. The information is presented by transaction date.

Proprietary trades (concurrent buying and selling) are entered in the balance sheet on the settlement date.

Assets and liabilities booked to the same subaccount are valued separately.

Account balances in foreign currency are translated into Swiss francs at the year-end exchange rate. The main exchange rates used to translate foreign exchange accounts were as follows:

Foreign currencies	31.12.2014	31.12.2013
EUR	1.202475	1.226745
USD	0.989450	0.891050
GBP	1.542000	1.472450

### Cash, receivables due from and to banks and clients

Loans and commitments are entered in the balance sheet at nominal values.

Accrued interest is calculated pro rata as at the closing date and is included in accrued income and deferred charges.

Specific loan loss provisions are a function of the relative risk and are calculated on a prudent basis.

Provisions are made for debit interest and commission more than 90 days overdue based on the unhedged portion of the credit.

### Portfolio of securities held for trading

Securities and precious metals held for trading are marked to market on the closing date. Interest and dividends on traded securities are credited to the item "Interest and dividend income on the trading portfolio".

**Financial investments**

In principle, except in the case of decisions dictated by particular market opportunities, fixed income securities are acquired to be held until maturity. They are valued according to the accrual method: the difference between purchase price and redemption value is spread over the years between the purchase and maturity dates.

Other financial investments are valued at the lower of their realisable market value or purchase price (lowest value principle).

**Tangible and intangible assets**

These are valued at purchase cost minus depreciation/amortisation. Depreciation is calculated on a straight-line basis on the purchase cost, taking into account the estimated useful life of the individual assets and using the indirect method.

The value of property, for which the related restructuring work was completed in 2005, is booked at purchase cost plus restructuring costs, minus depreciation and amortisation.

Suitability of the criteria adopted is checked annually and, if necessary, additional depreciation and amortisation is booked.

The following depreciation and amortisation criteria are applied:

- property	66 years
- software and hardware	3 years
- vehicles	3 years
- furniture, plant and furnishings	5 years
- intangible assets	5 years

Investments of modest value are fully expensed.

**Value adjustments and provisions**

Individual value adjustments are made for all recognisable risks at the end of the financial year, based on the prudence principle.

**Taxes**

Income and capital taxes are determined based on the profit for the year and related taxable capital.

**Pension fund**

Staff occupational pensions, which are governed according to precise rules, provide protection for members and their surviving relatives against the financial consequences of loss of earnings due to old age, death or disability, and supplement mandatory social benefits.

Banca Zarattini & Co. SA is affiliated to a collective pension fund of a legally independent insurance company, with which it has an agreement for a defined-contribution pension scheme. Consequently, the Bank's contributions are booked as personnel costs.

**Precious metals accounts**

The valuation of precious metals is based on the market price on the reporting date.

**Contingent liabilities and irrevocable commitments**

Transactions relating to contingent liabilities are recorded off balance sheet at their related nominal value. Value adjustments and provisions are made for recognisable risks of losses.

Irrevocable commitments take the form of deposit guarantees.

**Use of derivatives**

Derivatives are usually only entered into for the account of clients. These instruments are marked to market.

**Changes in accounting and valuation principles**

No changes of the accounting and valuation during the year.

### 3. Balance sheet information (in CHF thousands)

#### 3.1 Summary of loan collateral and off-balance sheet transactions

	Collateral type				Total
	Mortgage guarantee	Other secured	Unsecured		
<b>Loans</b>					
Due from clients	1,587	93,074	321		94,982
Mortgage loans	11,311	-	-		11,311
<i>of which:</i>					
<i>residential property</i>	10,636	-	-		10,636
<i>commercial and industrial property</i>	675	-	-		675
<b>Total</b>	<b>31.12.2014</b>	<b>12,898</b>	<b>93,074</b>	<b>321</b>	<b>106,293</b>
	<b>31.12.2013</b>	<b>13,198</b>	<b>88,930</b>	<b>477</b>	<b>102,605</b>
<b>Off-balance sheet transactions</b>					
Contingent liabilities	-	5,149	10		5,159
Irrevocable commitments	-	-	1,598		1,598
<b>Total</b>	<b>31.12.2014</b>	<b>-</b>	<b>5,149</b>	<b>1,608</b>	<b>6,757</b>
	<b>31.12.2013</b>	<b>-</b>	<b>13,590</b>	<b>1,518</b>	<b>15,108</b>

#### At-risk loans:

	Gross amount	Estimated recovery value	Net amount	Individual provisions
Current period	688	-	688	688
Previous period	557	-	557	557



### 3.2 Securities and precious metals trading portfolio

	31.12.14	31.12.13	Change
Debt securities			
- listed	4,121	3,210	911
Securities investments	19,500	18,621	879
<i>of which own securities</i>	-	-	-
Precious metals	-	-	-
<b>Total</b>	<b>23,621</b>	<b>21,831</b>	<b>1,790</b>
<i>of which securities available for repo transactions in accordance with liquidity regulations</i>	-	-	-

### Financial investments

	Book value		Fair value	
	31.12.14	31.12.13	31.12.14	31.12.13
Debt securities	56,668	78,387	57,358	78,835
<i>of which held until maturity</i>	56,668	78,387	57,358	78,835
<i>of which valued on lowest value principle</i>	-	-	-	-
Securities investments	11,587	10,989	11,759	11,282
<i>of which significant shareholdings</i>	330	-	330	-
Precious metals	-	-	-	-
Fixed assets	-	-	-	-
<b>Total</b>	<b>68,255</b>	<b>89,376</b>	<b>69,117</b>	<b>90,117</b>
<i>of which securities available for repo transactions in accordance with liquidity regulations</i>	-	-	-	-

### 3.4 Investment breakdown

	Value purchasing	Depreciation cumulative	Book value 31.12.13	Investments	Disposals	Depreciation	Book value 31.12.14
Fixed assets available for bank's use	13,453	-1,700	11,753	-	-	-202	11,551
Other fixed assets	8,382	-6,131	2,251	677	-	-1,341	1,587
<b>Total fixed assets</b>	<b>21,835</b>	<b>-7,831</b>	<b>14,004</b>	<b>677</b>	<b>-</b>	<b>-1,543</b>	<b>13,138</b>
<i>Value of buildings fire insurance</i>							9,580
<i>Value of fire insurance for other fixed assets</i>							2,500

### 3.6 Assets pledged or ceded to secure own liabilities

	Balance as at 31.12.14	Balance as at 31.12.13	Change
Book value of assets pledged or ceded	11,611	8,752	2,859
Actual commitments	9,055	6,151	2,904

### Other assets and liabilities

	Balance at 31.12.2014		Balance at 31.12.2013	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	1,705	1,643	624	507
Indirect tax	7	1,642	63	1,739
Credits and debits for commissions and other services	-	-	-	-
Receivables - fund subscriptions/redemptions	-	-	-	-
Other assets and liabilities	1,439	2,048	1,314	851
<b>Total</b>	<b>3,151</b>	<b>5,333</b>	<b>2,001</b>	<b>3,097</b>

### 3.7 Commitments to welfare institutions of the Bank

The Bank is affiliated to a collective pension foundation of a legally independent insurance company, which applies the legal provisions in force for occupational pensions in Switzerland. The pension scheme is based on the defined contributions made by the employer and employee. Treatment of pension commitments is based on Swiss GAAP RPC 16. Contributions made by the employer are recorded as expenses for the financial year. In the event of overpayment of contributions, these would be recorded as assets in the revised accounts.

#### Employer contribution reserves

At 31.12. 2014, as in the previous year, no reserve was created for employer contributions.

#### Revenues/liabilities and pension costs

For all pension plans, it must be determined whether the coverage and the pension institution's particular situation may generate revenues or liabilities for the company.

The pension institution has fully reinsured all old-age, disability, death and investment risks with another reputable insurance company.

Consequently, it is not possible for the pension fund to be in deficit, and the Bank will not in any instance be obliged to make supplementary contributions.

Contributions owed by the employer for 2014, as reported by the pension fund, amount to CHF 796,000, carried entirely on the income statement (compared with CHF 757,000 in 2013).

### 3.9 Value adjustments and provisions

	Position 31.12.13	Specific release accordance with purpose	Change of purpose	Recovery, doubtful interests, exchange rate diff.	New creation charged to income statement	Reversals credited to income statement	Position 31.12.14
Value adjustments and risk provisions							
loss (credit risks)	557 <sup>(1)</sup>	-	-	-	131	-	688
Value adjustments and other risk provisions							
of the year (commercial)	1,750	-	-	-	-	-	1,750
Other provisions	-	-	-	-	-	-	-
<b>Total</b>	<b>2,307</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131</b>	<b>-</b>	<b>2,438</b>
Amounts offset directly against assets	-	-	-	-	-	-	-
<b>Reserve for general banking risks</b>	<b>9,370</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,100</b>	<b>-</b>	<b>10,470</b>

<sup>1</sup> As at 31.12.2013, this item was included in the value adjustments and provisions for other risks in the period (commercial).

### 3.10 Registered capital

	2014				2013			
	Value nominal total	Number of shares (unit)	Capital with rights dividend	Capital with rights voting	Value nominal total	Number of shares (unit)	Capital with rights dividend	Capital with rights voting
<b>Total registered capital</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>18,120</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>18,120</b>
<b>Significant shareholders and groups of shareholders linked by voting agreements</b>			<b>2014</b> Rate participation in %	<b>2014</b> Rate participation in %			2013 Rate participation in %	2013 Rate participation in %
<b>with voting rights</b>			Nominal		Nominal			
(via Neutral Holding, Luxembourg 100% and Lukos SA, Luxembourg 100%)								
Hereditary co-owner was Mario Zarattini		12,668	63.34%	69.91%	12,668	63.34%	69.91%	
<i>of which via Schulman Familienstiftung, Vaduz</i>		10,100	50.50%	55.74%	10,100	50.50%	55.74%	
Quaggio Flavio, Viganello		2,270	11.35%	12.53%	2,270	11.35%	12.53%	
Zanni Andrea, Bré sopra Lugano		1,580	7.90%	8.72%	1,580	7.90%	8.72%	
Santi Tullio, Lugano		1,088	5.44%	6.00%	1,088	5.44%	6.00%	
<b>without voting rights</b>								
(via Lukos SA, Luxembourg, 100%)								
Own shares held by Neutral Holding, Luxembourg		1,880	9.40%		1,880	9.40%		

### 3.11 Statement of shareholders' equity

#### Share capital at 1.1.2014

Share capital	20,000
General legal reserve	5,063
Reserves for general banking risks	9,370
Other reserves	30,207
Retained earnings	2,873

#### Total shareholders' equity at 1.1.2014 (before allocation of profits) **67,513**

Dividend and other distributions of previous year's profit	-2,703
Reserves for general banking risks	1,100
Profit of the period	3,398

#### Total shareholders' equity at 31.12.2014 (before allocation of profits) **69,308**

<i>of which:</i>	
Share capital	20,000
General legal reserve	5,233
Reserves for general banking risks	10,470
Other reserves	30,207
Retained earnings	3,398

### 3.12 Maturity structure of current assets and Third-party capital

	At sight	redeemable by notice	by 3 months	from 3 to 12 months	from 1 to 5 years	over 5 years	fixed assets	Total
<b>Current assets</b>								
Cash	26,099	-	-	-	-	-	-	<b>26,099</b>
Receivables due from monetary paper	-	-	-	-	-	-	-	-
Due from banks	143,855	9,040	6,879	10,959	-	-	-	<b>170,733</b>
Due from clients	-	92,490	905	1,587	-	-	-	<b>94,982</b>
Mortgage loans	-	-	420	10,891	-	-	-	<b>11,311</b>
Portfolio of securities and precious metals								
held for trading	23,621	-	-	-	-	-	-	<b>23,621</b>
Financial investments	-	5,728	16,303	11,898	33,996	-	330	<b>68,255</b>
<b>Total</b>	<b>31.12.2014</b>	<b>193,575</b>	<b>107,258</b>	<b>24,507</b>	<b>35,335</b>	<b>33,996</b>	<b>-</b>	<b>330</b>
	<b>31.12.2013</b>	<b>193,614</b>	<b>114,525</b>	<b>25,556</b>	<b>64,248</b>	<b>46,753</b>	<b>773</b>	<b>-</b>
<b>Third-party capital</b>								
Due to banks	163	-	-	-	-	-	-	<b>163</b>
Other amounts due to clients	326,315	-	-	-	-	-	-	<b>326,315</b>
<b>Total</b>	<b>31.12.2014</b>	<b>326,478</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>326,478</b>
	<b>31.12.2013</b>	<b>383,933</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>383,933</b>

### 3.13 Loans and commitments to affiliated companies and management bodies of the Bank

		31.12.14	31.12.13	Change
Loans	Affiliated companies	-	-	-
	Management bodies of the Bank (*)	1,399	1,409	-10
<b>Total receivables</b>		<b>1,399</b>	<b>1,409</b>	<b>-10</b>
Commitments	Affiliated companies	-	-	-
<b>Total commitments</b>		<b>-</b>	<b>-</b>	<b>-</b>

\* Loans granted to the management are awarded under the same conditions as are applied to Bank staff. There are no further transactions with related parties.

### 3.14 Balance sheet by Swiss or foreign domicile

	Year under review		Previous period	
	Switzerland	Abroad	Switzerland	Abroad
<b>Assets</b>				
Cash	26,099	-	8,097	-
Receivables due from monetary paper	-	-	-	-
Due from banks	96,718	74,015	113,505	110,055
Due from clients	10,422	84,560	10,048	79,359
Mortgage loans	11,311	-	13,198	-
Securities and precious metals trading portfolio	-	23,621	-	21,831
Financial investments	555	67,700	226	89,150
Fixed assets	13,138	-	14,004	-
Accrued income and prepaid expenses	2,577	-	3,278	-
Other assets	1,794	1,357	1,745	256
<b>Total assets</b>	<b>162,614</b>	<b>251,253</b>	<b>164,101</b>	<b>300,651</b>
<b>Liabilities</b>				
Due to banks	137	26	461	35
Other amounts due to clients	30,042	296,273	37,614	345,824
Accrued liabilities and deferred charges	10,310	-	7,901	-
Other liabilities	5,089	244	2,743	354
Value adjustments and provisions	2,438	-	2,307	-
Reserve for general banking risks	10,470	-	9,370	-
Share capital	20,000	-	20,000	-
General legal reserve	5,233	-	5,063	-
Other reserves	30,207	-	30,207	-
Retained earnings	-	-	-	-
Profit/-loss for the period	3,398	-	2,873	-
<b>Total liabilities</b>	<b>117,324</b>	<b>296,543</b>	<b>118,539</b>	<b>346,213</b>

### 3.15 Assets by country and country groups

	Year under review		Previous period	
	Amount	%	Amount	%
<b>Switzerland</b>	<b>162,614</b>	<b>39%</b>	<b>164,101</b>	<b>35%</b>
Other OECD countries	225,606	55%	286,773	62%
Other countries	25,647	6%	13,878	3%
<b>Total foreign</b>	<b>251,253</b>	<b>61%</b>	<b>300,651</b>	<b>65%</b>
<b>Total assets</b>	<b>413,867</b>	<b>100%</b>	<b>464,752</b>	<b>100%</b>

### 3.16 Balance sheet by currency

	Currencies				Total
	CHF	USD	EUR	Other	
<b>Assets</b>					
Cash	25,338	40	719	2	26,099
Receivables due from monetary paper	-	-	-	-	-
Due from banks	12,342	75,060	79,215	4,116	170,733
Due from clients	5,832	23,546	65,149	455	94,982
Mortgage loans	11,311	-	-	-	11,311
Securities and precious metals trading portfolio	2,771	678	20,172	-	23,621
Financial investments	19,093	13,562	35,600	-	68,255
Fixed assets	13,138	-	-	-	13,138
Accrued income and prepaid expenses	1,070	306	1,201	-	2,577
Other assets	3,112	30	9	-	3,151
<b>Total assets</b>	<b>94,007</b>	<b>113,222</b>	<b>202,065</b>	<b>4,573</b>	<b>413,867</b>
Forward rate contracts, swaps	5,638	42,283	44,205	1,503	93,629
<b>Total assets</b>	<b>99,645</b>	<b>155,505</b>	<b>246,270</b>	<b>6,076</b>	<b>507,496</b>
<b>Liabilities</b>					
Due to banks	-	1	150	12	163
Other amounts due to clients	25,404	104,022	192,506	4,383	326,315
Accrued liabilities and deferred charges	8,252	1,937	121	-	10,310
Other liabilities	5,186	4	143	-	5,333
Value adjustments and provisions	2,438	-	-	-	2,438
Reserve for general banking risks	10,470	-	-	-	10,470
Share capital	20,000	-	-	-	20,000
General legal reserve	5,233	-	-	-	5,233
Other reserves	30,207	-	-	-	30,207
Retained earnings	-	-	-	-	-
Net profit for the year	3,398	-	-	-	3,398
<b>Total liabilities</b>	<b>110,588</b>	<b>105,964</b>	<b>192,920</b>	<b>4,395</b>	<b>413,867</b>
Forward rate contracts, swaps	2,932	42,264	46,930	1,503	93,629
<b>Total liabilities</b>	<b>113,520</b>	<b>148,228</b>	<b>239,850</b>	<b>5,898</b>	<b>507,496</b>
<b>Net position per currency</b>	<b>-13,875</b>	<b>7,277</b>	<b>6,420</b>	<b>178</b>	<b>-</b>

## Quantitative information pursuant to FINMA Circ. 2088/22

**Table 1: b) Breakdown of regulatory capital considered**

### a) Preliminary reconciliation

<b>Balance sheet</b>	<b>31.12.14</b>	31.12.13
<b>Assets</b>		
Cash	26,099	8,097
Receivables due from monetary paper	-	-
Due from banks	170,733	223,560
Due from clients	94,982	89,407
Mortgage loans	11,311	13,198
Securities and precious metals trading portfolio	23,621	21,831
- of which own securities		
Financial investments	68,255	89,376
- of which own securities		
Tangible fixed assets	11,803	12,095
Intangible assets	1,335	1,909
- of which goodwill	792	1,266
- of which other intangible assets	543	643
Accrued income and prepaid expenses	2,577	3,278
Other assets	3,151	2,001
- of which latent tax receivables, dependent on future income		
- of which latent tax receivables, arising from temporary differences		
<b>Total assets</b>	<b>413,867</b>	<b>464,752</b>
<b>Third-party capital</b>		
Commitments to banks	163	495
Other commitments to clients	326,315	383,438
Accrued liabilities and deferred charges	10,310	7,901
Other liabilities	5,333	3,097
Value adjustments and provisions	2,438	2,307
<b>Total third-party capital</b>	<b>344,559</b>	<b>397,238</b>
<b>Shareholders' equity</b>		
Reserves for general banking risks	10,470	9,370
Share capital	20,000	20,000
Legal reserve	5,233	5,063
Reserve for profits (losses) carried forward	30,207	30,207
Profit for the period net of expected dividend	218	170
<b>Breakdown of shareholders' equity</b>	<b>66,128</b>	<b>64,810</b>



## b) Breakdown of regulatory capital considered

	Net figures (net of impact of transitional regulations)	
	31.12.14	31.12.13
<b>Top-quality (CET 1) capital</b>		
Issued and called-up share capital, fully payable	20,000	20,000
General legal reserve	5,233	5,063
Reserves for general banking risks	10,470	9,370
Profit reserve	30,207	30,207
Profit for the period net of expected dividend	218	170
<b>= Top-quality (CET 1) capital before adjustments</b>	<b>66,128</b>	<b>64,810</b>
Goodwill (net of latent tax)	-792	-1,266
<b>= Sum of adjustments relating to CET 1</b>	<b>-792</b>	<b>-1,266</b>
<b>Net top-quality (CET 1) capital</b>	<b>65,336</b>	<b>63,544</b>
<b>TIER 1 Net capital</b>	<b>65,336</b>	<b>63,544</b>
<b>Net T1 and T2 Total calculable regulatory capital</b>	<b>65,336</b>	<b>63,544</b>
<b>Sum of risk-weighted positions</b>	<b>247,495</b>	<b>265,779</b>
<b>CET 1 ratio</b>	<b>26.40%</b>	<b>23.79%</b>
<b>T1 ratio</b>	<b>26.40%</b>	<b>23.79%</b>
<b>Ratio relating to total regulatory capital</b>	<b>26.40%</b>	<b>23.79%</b>

**Table 2: Presentation of required capital**

<b>Minimum capital requirements</b>	<b>31.12.14</b>	<b>31.12.13</b>
Credit risk (standardized international approach)	14,674	16,019
- of which risk evaluation re securities in the Bank's portfolio	2,904	2,523
Non-counterparty risk (standardized Swiss approach)	988	1,019
Market risk (standardized Swiss approach)	1,122	2,162
- of which on interest rate instruments (de minimis approach)		
- of which securities (de minimis approach)		
- of which currencies and precious metals (standardised approach)	1,110	2,147
- of which commodities (standardised approach)	12	15
Operational risks (basic indicator approach)	3,016	2,062
<b>Total</b>	<b>19,800</b>	<b>21,262</b>
<b>Requirement according to the transitional regulations of the Ordinance of Own Funds (minimum requirements + own funds capital buffer + countercyclical capital buffer)</b>	<b>31.12.14</b>	<b>31.12.13</b>
Minimum requirements	19,800	21,262
Capital buffer for cat. 5: 2.5%	6,187	6,644
Countercyclical capital buffer on credit risks: 1%	88	56
<b>Total capital requirement</b>	<b>26,075</b>	<b>27,962</b>

## 4. Information on off-balance sheet transactions (in CHF thousands)

### 4.1 Breakdown by contingent liability

	31.12.14	31.12.13	Change
Warranty obligations	5,159	13,602	-8,443
<b>Total</b>	<b>5,159</b>	<b>13,602</b>	<b>-8,443</b>

### 4.3 Derivative instruments

	Trading instruments			Hedging instruments			
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume	
<b>Currencies</b>							
Forward rate contracts	254	222	21,796	1	2	2,703	
Swaps	1,420	1,419	69,130	-	-	-	
<b>Securities/indices</b>	-	-	-	-	-	-	
Futures	-	-	-	-	-	-	
<b>Total</b>	<b>31.12.2014</b>	<b>1,674</b>	<b>1,641</b>	<b>90,926</b>	<b>1</b>	<b>2</b>	<b>2,703</b>
	<b>31.12.2013</b>	<b>504</b>	<b>497</b>	<b>90,638</b>	<b>112</b>	<b>11</b>	<b>1,799</b>

### 4.4 Fiduciary transactions

	31.12.14	31.12.13	Change
Fiduciary investments with other banks	8,423	11,041	-2,618
<b>Total</b>	<b>8,423</b>	<b>11,041</b>	<b>-2,618</b>

### 4.5 Breakdown of managed assets

	31.12.14	31.12.13	Change
Assets held by investment funds managed for own account	301,226	266,255	34,971
Assets with administration mandate			
Direct clients	416,132	502,327	-86,195
Indirect clients	5,628	6,007	-379
Other assets	1,368,004	1,455,513	-87,509
<b>Total client assets</b>	<b>2,090,990</b>	<b>2,230,102</b>	<b>-139,112</b>
<i>of which counted twice</i>	227,500	199,828	27,672
Net cash inflow/-outflow	-139,817	444,445	-584,262

Assets purely held in custody are not included in the above table. These comprise assets for which the Bank performs a custody and collection service only, without performing any supplementary service.

Net new money was determined by calculating the balance of deposits and withdrawals of funds and securities valued on the day of deposit/withdrawal. Interest and dividends are not included.

## 5. Income statement information (in CHF thousands)

### 5.2 Breakdown of income on trading operations

	31.12.14	31.12.13	Change
Trading in foreign currencies and banknotes	2,088	1,272	816
Trading in precious metals	-	-	-
Securities trading	4,822	3,608	1,214
<b>Total</b>	<b>6,910</b>	<b>4,880</b>	<b>2,030</b>

### 5.3 Breakdown of personnel costs

	31.12.14	31.12.13	Change
Salaries and wages	10,752	10,604	148
Social charges	1,777	1,714	63
Other personnel expenses	48	69	-21
<b>Total</b>	<b>12,577</b>	<b>12,387</b>	<b>190</b>

### 5.4 Breakdown of operating costs

	31.12.14	31.12.13	Change
Premises	918	948	-30
Office equipment, machinery, furniture, vehicles and other fixtures	1,515	1,360	155
Other expenses	3,197	2,444	753
<b>Total</b>	<b>5,630</b>	<b>4,752</b>	<b>878</b>

### Comment on extraordinary expenses

Extraordinary expenses of CHF 1,100,000 are created from the provision for general banking risks made to increase own funds.



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To the General Meeting of  
**Banca Zarattini & Co SA, Lugano**

Lugano, 24 March 2015

## **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the financial statements of Banca Zarattini & Co SA, which comprise the balance sheet, income statement and notes (pages 5 to 25), for the year ended 31 December 2014.

### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

### Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd



**Erico Bertoli**  
Licensed audit expert  
(Auditor in charge)



**Bruno Patusi**  
Licensed audit expert







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