Zarattini & Co | Bank

Annual Report 2016

Presented to the Annual General Meeting of Shareholders on 10 April 2017

Management Bodies

Board of Directors

Chairman	Claudio Sulser (*)	Lugano
Vice chairman	Andrea Zanni (**)	Lugano
Members	Camilla Fasolo Zarattini	Collina d'Oro
	Peter Heckendorn (*) (**)	Ascona
	Francesco Renne (*) (**)	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 2016

Dear Shareholders,

There was modest economic growth at both the global and local levels last year. Switzerland was able to withstand the headwinds caused by the strong franc, posting real growth of 1.3%, supported as usual by exports, a recovery in domestic consumption and also deflation. Swiss inflation has in fact been consistently negative the past two years, and it did not make its first tentative ventures into positive territory until the first few months of 2017.

For nine years now, the main central banks have kept their nominal interest rates close to or even below zero and have purchased debt securities of all types in the market in an attempt to fend off deflation. The main, or at least most obvious, effect is that returns for savers on all possible kinds of investments have fallen. Efforts to combat the cause of the crisis – the surfeit of debt – with other debt could cause undesired side effects that are greater than the benefits, as in the case of Japan, which has been fighting deflation for a full twenty years now without much success. The healthiest economies seem to be those, like Switzerland, that have managed to sustain their industrial sector and the production of goods and services, thus keeping unemployment low. This characteristic is not correlated with inflation, except for chance correlations in specific phases of the economic cycle.

The actions of monetary authorities may possibly support the economy, but they can't control the economy or steer consumer preferences and business-owners' activities. As a result, financial market players and analysts have at last been turning their attention from monetary policy to politics itself, to an extent not seen for at least a decade, especially in the wake of the unexpected voting results in the UK, Italy and the United States. The elite in power today are not exactly in popular positions, with voters rejecting any proposal coming from the so-called ruling classes. Moreover, the globalisation trend seems to be triggering a period of crisis.

Switzerland may seem to be an oasis surrounded by a crisis-rocked, disunited Europe ridden with dramatic problems. This view is partly correct and justified by the past decades of outperformance, due, for example, to the fiscal discipline and political stability of the Swiss Confederation. But it is also exaggerated: in various parts of Europe the economic situation is stable or obviously improving, while other countries, such as Germany, are experiencing a phase of mature growth and full employment. The United States is also in a mature growth phase, with unemployment close to historic lows and interest rates on the rise, while the situation in the emerging countries is as mixed as ever, but with higher average growth than in the developed countries.

It was a fairly positive year in the financial markets, but only for certain markets and sectors. Nonetheless, risk premiums dropped further in almost all areas and the much-awaited return of inflation, triggered by the Federal Reserve's hike in interest rates, was enthusiastically welcomed by investors. The biggest advances in the markets did not take place until the last quarter and were primarily in the United States. However, the upturn also enabled weaker markets to close the year in positive territory. One notable exception was the Italian equity market, where the epic banking crisis that is weighing on equities practically wiped out any market gains. Despite this crisis, Italian share prices in non-financial sectors rose on the back of improving company results, in line with similar companies in other European countries.

The management activities of Banca Zarattini & Co produced a positive performance in most cases, thanks to effective stock-picking, the reduction in risk premiums on corporate bonds and the increase in share prices in the final quarter. However, the bank did not always outperform the benchmark indices. Holding back performance were negative interest rates and the neutral strategy component in the equity market, which resulted in returns lower than in the previous year. The fixed income portfolio produced the best performance, both in absolute terms and with respect to the benchmark.
Volatility returned to the foreign exchange market, which had for years had seen rapid movement in almost one currency only, the yen. Notable trends in 2016 included the weakness of the pound sterling, the renminbi and the Mexican peso, as well as the strength of the US dollar.
Forex hedging activities did not present any particular problems during the past financial year due to the relative stability of the franc. The hedging strategy used in the past will be maintained in 2017, without any speculative purpose, but solely to mitigate the risk relating to currency effects on the income statement. The weak euro is still a negative factor with respect to the profitability of your Bank: the franc strengthened by around 2% against the euro during the year. Most income is in euros, while all expenses are in francs. It is not always possible to fully hedge the euro risk. The slight downtick in the euro was offset to a small extent by the strength of the US dollar, which had a moderately positive effect on the accounts.
Another factor impacting bank profitability was the negative interest rates on the Swiss franc, which are by far the lowest in the world. To obtain a positive nominal return with minimal issuer risk, for example by investing in Swiss government bonds, it is essential to opt for maturities of more than ten years, even though inflation has now returned to levels above zero.
The net profit of Banca Zarattini & Co in 2016 amounted to CHF 1,093 million, down from the CHF 2,714 million in net profit achieved in 2015, due above all to lower commission income.
We would like to thank all our clients for their trust in us, which we gladly reciprocate. The requirements of our clients are always rising, and justifiably so, and our goal is to meet these increasing requirements. For example, we are pushing ahead with our ongoing efforts to offer new services and to upgrade the Bank in the areas of communication, IT and technology. Indeed, we are experiencing a period of great transformation in the banking sector, but thanks to our values, the cohesion of our group and the solidity of our balance sheet, we can confidently tackle the new and often difficult challenges that such transformations pose.
We would like to conclude by turning our thoughts to the Bank's employees, encouraging them to tackle the challenges of the future with their customary professionalism and energy and thanking them for their commitment and hard work throughout the past year.

The Board of Directors

Lugano, 28 March 2017

Balance Sheet

Assets	31.12.2016 CHF	31.12.2015 CHF
Liquid assets	28,674,900	20,985,324
Amounts due from banks	116,508,847	191,141,127
Amounts due from customers	197,542,062	114,113,444
Mortgage loans	11,256,300	10,998,000
Trading portfolio assets	7,741,291	20,079,494
Positive replacement values of derivative financial instruments	334,589	260,533
Financial investments	41,278,641	55,574,691
Accrued income and prepaid expenses	1,911,765	2,594,102
Tangible fixed assets	12,374,534	12,420,069
Intangible assets	-	316,667
Other assets	192,320	256,609
Total assets	**417,815,249**	**428,740,060**

Liabilities		
Amounts due to banks	1,070,933	218,217
Amounts due in respect of customer deposits	338,895,810	347,575,303
Negative replacement values of derivative financial instruments	1,010,250	182,862
Accrued expenses and deferred income	5,535,069	7,558,922
Other liabilities	1,072,067	1,496,786
Provisions	1,753,711	1,765,200
Reserve for general banking risks	11,570,000	11,570,000
Bank's capital	20,000,000	20,000,000
Statutory retained earnings reserve	5,606,600	5,450,750
Voluntary retained earnings reserve	30,207,403	30,207,403
Profit carried forward	267	569
Profit / loss (result of the period)	1,093,139	2,714,048
Total liabilities	**417,815,249**	**428,740,060**

Off-balance sheet transactions		
Contingent liabilities	1,037,257	2,549,440
Irrevocable commitments	984,000	1,184,000

Income Statement

	2016 CHF	2015 CHF
Interest and discount income	1,764,497	1,173,708
Interest and dividend income from trading portfolios	14,869	27,044
Interest and dividend income from financial investments	493,401	690,047
Interest expense	-6,082	-22,307
Gross result from interest operations	**2,266,685**	**1,868,492**
Changes in value adjustments for default risks and losses from interest operations	-32,224	379,771
Net result from interest operations	**2,234,461**	**2,248,263**
Commission income from securities trading and investment activities	12,706,730	16,741,422
Commission income from lending activities	62,156	56,105
Commission income on other services	248,057	453,432
Commission expense	-3,795,393	-3,181,117
Result from commission business and services	**9,221,550**	**14,069,842**
Result from trading activities and the *fair value* option	**7,667,960**	**6,644,912**
Result from the disposal of financial investments	3,209	-52,518
Result from real estate	343,996	343,996
Other ordinary income	145,655	-
Other ordinary expenses	-	-243,727
Other result from ordinary activities	**492,860**	**47,751**
Personnel expenses	-12,505,978	-12,615,669
General and administrative expenses	-4,461,039	-4,396,427
Total operating expenses	**-16,967,017**	**-17,012,096**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-1,076,490	-1,270,284
Changes to provisions and other value adjustments, and losses	-	-15,200
Operating result	**1,573,324**	**4,713,188**
Extraordinary income	-	117
Extraordinary expenses	-40,000	-44,170
Changes in reserves for general banking risks	-	-1,100,000
Taxes	-440,185	-855,087
Profit / loss (result of the period)	**1,093,139**	**2,714,048**

Appropriation of Profit

(proposal of Board of Directors)

	31.12.2016 CHF	31.12.2015 CHF
Profit	1,093,139	2,714,048
+ profit carried forward	267	569
= distributable profit	**1,093,406**	**2,714,617**
Appropriation of profit		
Allocation to statutory retained earnings reserve	-8,450	-155,850
Distributions from distributable profit	-1,084,500	-2,558,500
New amount carried forward	**456**	**267**

Presentation of the statement of changes in equity

	Bank,s Capital	Capital Reserve	Retained earnings reserve	Reserves for general banking risks	Currency translation reserves	Voluntary retained earnings reserves and profit / loss carried forward	Own shares (negative item)	"Minority" interests	Result of the period	Total
Equity at start of current period	**20,000**	**-**	**5,451**	**11,570**	**-**	**30,208**	**-**	**-**	**2,714**	**69,943**
Dividends and other distributions	-	-	155	-	-	-	-	-	-2,714	**-2,559**
Other allocations to (transfers from) the reserves for general banking risks	-	-	-	-	-	-	-	-	-	**-**
Profit / loss (result of the period)	-	-	-	-	-	-	-	-	1,093	**1,093**
Equity at end of current period	**20,000**	**-**	**5,606**	**11,570**	**-**	**30,208**	**-**	**-**	**1,093**	**68,477**

Notes to the annual report

1. Information about activity

The information refers to the position as at 31 December 2016.

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 Banks (Banking Act, BA), the Swiss Ordinance on Banks and Savings banks (Banking Ordinance, BO), FINMA Circular 2015/1 "Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB)", 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 2016, the Bank had 72 employees (end 2015: 73 employees), representing 69.95 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 Management Service is responsible for implementing the risk policy prepared by the Executive Board and approved by the Board of Directors. Specifically, the Risk Management Service 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 Management Service, 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.

There were no significant events after the balance sheet date.

2. Outsourcing

Banca Zarattini & Co. SA has outsourced some of its operations relating to the management of S.W.I.F.T. communications to D+H Switzerland GmbH, Baden (previously BBP AG).

3. Accounting principles and policies

General principles
The Bank prepares the financial statements as reliable assessment statutory single-entity financial statements. The criteria used for preparing accounts, balance sheet reporting and valuations comply with prevailing legislation and with FINMA Circular 2015/1 "Accounting rules for banks, securities dealers, financial groups and conglomerates (ARB)", as well as the provisions of the Swiss Federal Law on Banks and Savings Banks and the Swiss Federal Act on Stock Exchanges and Securities Trading. 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	31.12.2016	31.12.2015
EUR	1.072085	1.082710
USD	1.019050	0.992400
GBP	1.258250	1.470150

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.
Negative interest on the borrowing business is to be recognised in interest expense (reduction in interest expense). During the year 2016 the bank has sustained costs for negative interest of CHF 280'646 (2015: CHF 105'158.)

Trading portfolio assets
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 are booked.

The following depreciation and amortisation criteria are applied:

– property	66 anni
– software and hardware	3 anni
– vehicles	3 anni
– furniture, plant and furnishings	5 anni
– intangible assets	5 anni

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 with 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 expenses.

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 derivative financial instruments

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

Changes in accounting and valuation principles

There were no changes to the accounting and valuation principles during the year.

Details on the individual items in the notes to annual financial statements[1]

Presentation of collateral for loans/receivables and off-balance-sheet transactions, as well as impaired loans/receivables (Table 2)

	TYPE OF COLLATERAL			
Loans (before netting with value adjustments)	Secured by mortgage	Other collateral	Unsecured	Total
Amounts due from customers	399	196,969	309	**197,677**
Mortgage loans	11,256	-	-	**11,256**
Residential property	9,671	-	-	**9,671**
Office and business premises	1,585	-	-	**1,585**
Commercial and industrial premises	-	-	-	**-**
Other	-	-	-	**-**
Total loans (before netting with value adjustments)	**11,655**	**196,969**	**309**	**208,933**
Current year	11,655	196,969	309	**208,933**
Previous year	10,998	113,586	631	**125,215**
Total loans (after netting with value adjustments)	**11,655**	**196,969**	**174**	**208,798**
Current year	11,655	196,969	174	**208,798**
Previous year	10,998	113,586	527	**125,111**
Off-balance sheet				
Contingent liabilities	-	1,024	13	**1,037**
Irrevocable commitments	-	-	984	**984**
Obligations to pay up shares and make further contributions	-	-	-	**-**
Credit commitments	-	-	-	**-**
Total off-balance sheet	**-**	**1,024**	**997**	**2,021**
Current year	-	1,024	997	**2,021**
Previous year	-	2,471	1,262	**3,733**

Table: Impaired loans/receivables	Gross debt Amount	Estimated liquidation value of collateral*	Net debt amount	Individual value adjustments
Current year	135	-	135	135
Previous year	104	-	104	104

* Credit or liquidation value per customer: the lower value is to be applied.

1) Tables are numbered according to FINMA regulation. Any tables not shown do not apply to the Bank.

Breakdown of trading portfolios and other financial instruments at *fair value* (assets and liabilities) (Table 3)

Assets	Current year	Previous year
Trading portfolio assets	**7,741**	**20,079**
Debt securities, money market securities/transactions	211	647
of which, listed	*211*	*647*
Equity securities	7,530	19,432
Precious metals and commodities	-	-
Other trading portfolio assets	-	-
Total assets	**7,741**	**20,079**
of which, determined using a valuation model	-	-
of which, securities eligible for repo transactions in accordance with liquidity requirements	-	-

Presentation of derivative financial instruments (assets and liabilities) (Table 4)

	TRADING INSTRUMENTS			HEDGING INSTRUMENTS*		
Foreign exchange / precious metals	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Forward contracts	195	125	35,037	-	-	-
Combined interest rate / currency swaps	134	183	11,376	-	702	-
Total	**329**	**308**	**46,413**	**-**	**702**	**26,478**
Equity securities / indices						
Futures	-	-	8,648	-	-	26,478
Total	**-**	**-**	**8,648**	**-**	**-**	**-**
Total	**329**	**308**	**55,061**	**-**	**702**	**26,478**

Total before netting agreements:						
Current year	329	308	55,061	-	702	26,478
of which, determined using a valuation model	-	-	-	-	-	-
Previous year	183	176	30,068	74	7	16,563
of which, determined using a valuation model	-	-	-	-	-	-

Total after netting agreements	Positive replacement values (cumulative)	Negative replacement values (cumulative)
Current year	329	1'010
Previous year	257	183

Breakdown by counterparty:	Central clearing houses	Banks and securities dealersr	Other customers
Positive replacement values (after netting agreements)	-	168	162

* hedging instruments as defined in margin no. 431 et seqq.

Breakdown of financial investments (Table 5)

	BOOK VALUE		FAIR VALUE	
	Current year	Previous year	Current year	Previous year
Debt securities	27,506	41,356	27,747	41,687
of which, intended to be held to maturity	*27,506*	*41,356*	*27,747*	*41,687*
Equity securities	13,773	14,219	14,712	14,457
*of which, qualified participations**	*645*	*330*	*645*	*330*
Total	**41,279**	**55,575**	**42,459**	**56,144**
of which, securities eligible for repo transactions in accordance with liquidity requirements	-	-	-	-

* at least 10% of capital or votes

Breakdown of counterparties by rating

S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: Book value	5,285	6,671	14,480	-	-	-
Moody's	Aaa to Aa3-	A1 to A3	Baa1+ to Baa3	Ba1+ to Ba3	Below B3	Unrated
Debt securities: Book value	1,070	-	-	-	-	-
Fitch	AAA to AA-	A+to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Debt securities: Book value	-	-	-	-	-	-
Total debt securities: book value	**6,355**	**6,671**	**14,480**	**-**	**-**	**-**

Presentation of tangible fixed assets (Table 8)

				Current year					
	Aquisition cost	Accumulated depreciation	Book value Previous period end	Reclassifications	Additions	Disposals	Depreciation	Reversals	Book value as at end of current year
Bank buildings	13,453	-2,103	11,350	-	-	-	-202	-	11,148
Proprietary or separately acquired software	1,955	-1,182	773	-	474	-	-416	-	831
Other tangible fixed assets	5,222	-4,925	297	-	240	-	-142	-	395
Total tangible fixed assets	**20,630**	**-8,210**	**12,420**	**-**	**714**	-	**-760**	**-**	**12,374**

Presentation of intangible assets (Table 9)

	Cost value	Accumulated amortisation	Book value Previous year ende	Current year Additions	Disposals	Amortisation	Book value as at end of current year
Goodwill	2,750	-2,433	317	-	-	-317	-
Total intangible assets	**2,750**	**-2,433**	**317**	**-**	**-**	**-317**	**-**

Breakdown of other assets and other liabilities (Table 10)

	OTHER ASSETS		OTHER LIABILITIES	
	Current year	Previous year	Current year	Previous year
Amount recognised as assets in respect of employer contribution reserves	-	-		
Amount recognised as assets relating to other assets from pension schemes	6	71		
Other assets	143	167		
Indirect tax	43	19		
Other liabilities			686	495
Indirect tax			386	1,002
Total	**192**	**257**	**1,072**	**1,497**

Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership* (Table 11)

	CURRENT YEAR		PREVIOUS YEAR	
	Book Values	Effective commitments	Book Values	Effective commitments
Pledged / assigned assets (amounts due from banks)	16,681	14,385	14,290	11,966
Assets under reservation of ownership	-	-	-	-

* excluding securities financing transactions

Disclosures on the economic situation of own pension schemes (Table 13)

b) Presentation of the economic benefit / obligation and the pension expenses	Overfunding / underfunding at end of current year	Economic interest of the bank Current year	Economic interest of the bank Previous year	Change in economic interest (economic benefit / obligation) versus previous year	Contributions paid for the current period	Pension expenses in personnel expenses Current year	Pension expenses in personnel expenses Previous year
Pension schemes	-	-	-	-	1,461	958	827

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 31.12.2016, 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.

Presentation of value adjustments and provisions, reserves for general banking risks, and changes therein during the current year (Table 16)

	Previous year end	Use in conformity with designated purpose	Reclassifications	Currency differences	Past due interest, recoveries	New creations charged to income	Releases to income	Balance at current year end	Delta
Provisions for other business risks	1,765	-	-	-	-	-	-11	1,754	-11
Total provisions	**1,765**	**-**	**-**	**-**	**-**	**-**	**-11**	**1,754**	**-11**
Reserves for general banking risks	**11,570**		**-**	**-**		**-**	**-**	**11,570**	**-**
Value adjustments for default and country risks	**104**	**-**	**-**	**-1**	**-**	**32**	**-**	**135**	**31**
of which, value adjustments for default risks in respect of impaired loans / receivables	*104*	-	-	*-1*	-	*32*	-	*135*	*31*

Presentation of the bank's capital (Table 17)

Bank's capital	CURRENT YEAR Total par value	Quantity	Capital with dividend rights	PREVIOUS YEAR Total par value	Quantity	Capital with dividend rights
Share capital	20,000	20,000	20,000	20,000	20,000	20,000
of which, paid up	*20,000*	*20,000*	*20,000*	*20,000*	*20,000*	*20,000*
Total bank's capital	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**	**20,000**

Disclosure of amounts due from / to related parties (Table 19)

	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	Current Year	Previous year	Current Year	Previous year
Holders of qualified participations	-	633	7,052	2,801
Group companies	-	-	4,972	4,615
Linked companies	645	-	11,226	1,677
Transactions with members of governing bodies	1,268	1,266	196	105
Other related parties	-	-	221	70

Explanations regarding conditions
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.

Disclosure of holders of significant participations (Table 20)

Holders of significant participations and groups of holders of participations with pooled voting rights	CURRENT YEAR Nominal	% of equity	PREVIOUS YEAR Nominal	% of equity
with voting rights				
(via Neutral Holding, Luxembourg 100% and Lukos SA, Luxembourg 100%)				
Hereditary co-owner was Mario Zarattini	12,668	63.34%	12,668	63.34%
of which via Schulman Familienstiftung, Vaduz	*10,100*	*50.50%*	*10,100*	*50.50%*
Flavio Quaggio, Viganello	2,270	11.35%	2,270	11.35%
Andrea Zanni, Bré sopra Lugano	1,580	7.90%	1,580	7.90%
Tullio Santi, Lugano	1,088	5.44%	1,088	5.44%
without voting rights				
(via Lukos SA, Luxembourg, 100%)				
Own shares held by Neutral Holding SA SPF, Luxembourg	1,880	9.40%	1,880	9.40%

Disclosure of own shares and composition of equity capital (Table 21)

	CURRENT YEAR		PREVIOUS YEAR	
Details on the individual categories of the bank's capital (margin no. A5-88)	Number of securities (units)	Nominal value	Number of securities (units)	Nominal value
Share capital	20,000	20,000	20,000	20,000
of which, paid up	*20,000*	*20,000*	*20,000*	*20,000*
Total	**20,000**	**20,000**	**20,000**	**20,000**

Non-distributable reserves (margin no. A5-88 - Part 2)	Total at end current year	Total at end of previous year
Non-distributable amount from statutory retained earnings reserve	5'607	5'451
Non-distributable amount from voluntary retained earnings reserves	30'207	30'207
Total	**35'814**	**35'658**

Presentation of the maturity structure of investments (Table 23)

Assets / financial instruments	At sight	Cancellable	Due within 3 months	Due within 3 to 12 months	Due within 12 months to 5 years	Due after 5 years	No maturity	Total
Liquid assets	28,675							28,675
Amounts due from banks	102,124	14,385	-	-	-			116,509
Amounts due from customers	-	196,762	-	780	-			197,542
Mortgage loans	-	-	2,111	9,145	-	-	-	11,256
Trading portfolio assets	7,741							7,741
Positive replacement values of derivative financial instruments	335							335
Financial investments	-	10,875	2,575	9,866	15,355	1,963	645	41,279
Current year	**138,875**	**222,022**	**4,686**	**19,791**	**15,355**	**1,963**	**645**	**403,337**
Previous year	**184,503**	**134,990**	**20,293**	**43,859**	**25,199**	**3,978**	**330**	**413,152**
Debt capital / financial instruments								
Amounts due to banks	1,071	-	-	-	-	-		1,071
Amounts due in respect of customer deposits	338,896	-	-	-	-	-		338,896
Negative replacement values of derivative financial instruments	1,010							1,010
Current year	**340,977**	**-**	**-**	**-**	**-**	**-**	**-**	**340,977**
Previous year	**347,976**	**-**	**-**	**-**	**-**	**-**	**-**	**347,976**

Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principle (Table 24)

	CURRENT YEAR		PREVIOUS YEAR	
Assets	Domestic	Foreign	Domestic	Foreign
Liquid assets	28,675	-	20,985	-
Amounts due from banks	54,591	61,918	68,656	122,485
Amounts due from customers	9,522	188,020	6,433	107,680
Mortgage loans	11,256	-	10,998	-
Trading portfolio assets	-	7,741	-	20,079
Positive replacement values of derivative financial instruments	194	141	139	122
Financial investments	799	40,480	486	55,089
Accrued income and prepaid expenses	1,912	-	2,594	-
Tangible fixed assets	12,374	-	12,420	-
Intangible assets	-	-	317	-
Other assets	192	-	257	-
Total assets	**119,515**	298,300	**123,285**	**305,455**

Liabilities				
Amounts due to banks	-	1,071	4	214
Amounts due in respect of customer deposits	40,694	298,202	30,644	316,931
Negative replacement values of derivative financial instruments	834	176	169	14
Accrued expenses and deferred income	5,535	-	7,559	-
Other liabilities	1,072	-	1,497	-
Provisions	1,754	-	1,765	-
Reserves for general banking risks	11,570	-	11,570	-
Bank's capital	20,000	-	20,000	-
Statutory retained earnings reserve	5,607	-	5,451	-
Voluntary retained earnings reserve	30,207	-	30,207	-
Profit carried forward / loss carried forward	-	-	1	-
Profit/loss (result of the period)	1,093	-	2,714	-
Total liabilities	**118,366**	**299,449**	**111,581**	**317,159**

Breakdown of total assets by country or group of countries (domicile principle) (Table 25:)

	CURRENT YEAR		PREVIOUS YEAR	
	Absolute	Share as %	Absolute	Share as %
Assets				
Africa	**780.00**	**0.19%**	**812.00**	**0.19%**
Ethiopia	780.00	0.19%	811.00	0.19%
South Africa	-	0.00%	1.00	0.00%
Asia	**-**	**0.00%**	**2,452.00**	**0.57%**
Japan	-	0.00%	502.00	0.12%
South Korea	-	0.00%	152.00	0.04%
Philippines	-	0.00%	1,798.00	0.42%
Caribbean	**99,530.00**	**23.82%**	**43,203.00**	**10.08%**
Barbados	3,286.00	0.79%	3,196.00	0.75%
Bermuda	143.00	0.03%	157.00	0.04%
Panama	82,976.00	19.86%	35,506.00	8.28%
St. Kitts-Nevis	12,940.00	3.10%	1.00	0.00%
Virgin Islands (BR)	185.00	0.04%	4,343.00	1.01%
Europe	**176,196.00**	**42.17%**	**241,867.00**	**56.41%**
Austria	213.00	0.05%	215.00	0.05%
Belgium	3,517.00	0.84%	3,049.00	0.71%
Bulgaria	1.00	0.00%	-	0.00%
Czech Republic	540.00	0.13%	-	0.00%
Croatia	-	0.00%	2.00	0.00%
Cyprus	-	0.00%	8,560.00	2.00%
France	1,450.00	0.35%	3,066.00	0.72%
Germany	13,300.00	3.18%	22,662.00	5.29%
Ireland	386.00	0.09%	510.00	0.12%
Italy	107,486.00	25.73%	110,176.00	25.70%
Latvia	390.00	0.09%	190.00	0.04%
Luxembourg	27,263.00	6.53%	76,452.00	17.83%
Malta	3,411.00	0.82%	4,444.00	1.04%
Netherlands	2,955.00	0.71%	4,087.00	0.95%
Portugal	2,571.00	0.62%	2,595.00	0.61%
Russian Federation	502.00	0.12%	499.00	0.12%
San Marino	2,947.00	0.71%	-	0.00%
Slovakia	-	0.00%	17.00	0.00%
Slovenia	-	0.00%	1.00	0.00%
Spain	-	0.00%	19.00	0.00%
Sweden	357.00	0.09%	360.00	0.08%
UK	8,907.00	2.13%	4,963.00	1.16%
Latin America	**4,813.00**	**1.15%**	**99.00**	**0.02%**
Argentina	1.00	0.00%	1.00	0.00%
Belize	679.00	0.16%	98.00	0.02%
Costa Rica	1.00	0.00%	-	0.00%
Mexico	25.00	0.01%	-	0.00%
Venezuela	4,107.00	0.98%	-	0.00%
Liechtenstein	**56.00**	**0.01%**	**42.00**	**0.01%**
Liechtenstein	56.00	0.01%	42.00	0.01%
North America	**16,254.00**	**3.89%**	**16,161.00**	**3.77%**
United States	16,254.00	3.89%	16,161.00	3.77%
Oceania	**671.00**	**0.16%**	**819.00**	**0.19%**
Australia	469.00	0.11%	819.00	0.19%
New Zeland	202.00	0.05%	-	0.00%
Switzerland	**119,515.00**	**28.60%**	**123,285.00**	**28.76%**
Switzerland	119,515.00	28.60%	123,285.00	28.76%
Total assets	**417,815.00**	**100.00%**	**428,740.00**	**100.00%**

Breakdown of total assets by credit rating of country groups (risk domicile view) (Table 26)

				NET FOREIGN EXPOSURE / CURRENT YEAR END		NET FOREIGN EXPOSURE / PREVIOUS YEAR END	
Rating	Moody's	Standard & Poor's	Fitch IBCA	In CHF	Share as %	In CHF	Share as %
1	Aaa	AAA	AAA	116,624	48.94%	151,502	55.65%
2	Aa1/Aa2/Aa3	AA+/AA/AA-	AA+/AA/AA-	54,188	22.74%	40,846	15.00%
3	A1/A2/A3	A+/A/A-	A+/A/A-	10,390	4.36%	1,156	0.42%
4	Baa1 /Baa2/ Baa3/Ba1/Ba2/ Ba3	BBB+/BBB/ BBB-/BB+/ BB/BB-/B+	BBB+/BBB/ BBB-/BB+/ BB/BB-/B+	57,080	23.95%	74,667	27.43%
5/6	B1/B2/B3/ Caa1/Caa2/ Caa3/Ca/C	B/B-/CCC/ CC/C/D	B/B-/CCC/ CC/C/D	1	0.00%	414	0.15%
No rating				2	0.00%	3,663	1.35%
Total				**238,285**	**100.00%**	**272,248**	**100.00%**

Presentation of assets and liabilities broken down by the most significant currencies for the bank (Table 27)

Assets	CHF	EUR	USD	GBP	JPY	Other	Total
Liquid assets	28,190	443	29	13	-	-	**28,675**
Amounts due from banks	16,547	82,047	13,779	2,899	19	1,218	**116,509**
Amounts due from customers	4,398	120,491	72,653	-	-	-	**197,542**
Mortgage loans	11,256	-	-	-	-	-	**11,256**
Trading portfolio assets	2,240	5,229	272	-	-	-	**7,741**
Positive replacement values of derivative financial instruments	335	-	-	-	-	-	**335**
Financial investments	8,563	19,978	12,738	-	-	-	**41,279**
Accrued income and prepaid expenses	1,007	695	210	-	-	-	**1,912**
Tangible fixed assets	12,374	-	-	-	-	-	**12,374**
Intangible assets	-	-	-	-	-	-	**-**
Other assets	192	-	-	-	-	-	**192**
Total assets shown in balance sheet	**85,102**	**228,883**	**99,681**	**2,912**	**19**	**1,218**	**417,815**
Delivery entitlements from spot exchange, forward forex and forex options transactions*	1,210	49,683	21,782	-	216	-	**72,891**
Total assets	**86,312**	**278,566**	**121,463**	**2,912**	**235**	**1,218**	**490,706**
Liabilities							
Amounts due to banks	5	665	391	10	-		**1,071**
Amounts due in respect of customer deposits	21,192	244,707	69,004	2,912	13	1,068	**338,896**
Negative replacement values of derivative financial instruments	1,010	-	-	-	-	-	**1,010**
Accrued expenses and deferred income	5,228	266	41	-	-	-	**5,535**
Other liabilities	957	112	-	3	-	-	**1,072**
Provisions	1,754	-	-	-	-	-	**1,754**
Reserves for general banking risks	11,570	-	-	-	-	-	**11,570**
Bank's capital	20,000	-	-	-	-	-	**20,000**
Statutory retained earnings reserve	5,607	-	-	-	-	-	**5,607**
Voluntary retained earnings reserve	30,207	-	-	-	-	-	**30,207**
Profit carried forward / loss carried forward	-	-	-	-	-	-	**-**
Profit / loss (result of the period)	1,093	-	-	-	-	-	**1,093**
Total liabilities shown in the balance sheet	**98,623**	**245,750**	**69,436**	**2,925**	**13**	**1,068**	**417,815**
Delivery obligations from spot exchange, forward forex and forex options transactions*	1,210	23,208	48,257	-	216	-	**72,891**
Total liabilities	**99,833**	**268,958**	**117,693**	**2,925**	**229**	**1,068**	**490,706**
Net position per currency	**-13,521**	**9,608**	**3,770**	**-13**	**6**	**150**	**-**

* Options are taken into account after being delta-weighted.

Breakdown of contingent liabilities and contingent assets (Table 28)

	Current year	Previous year
Performance guarantees and similar	1,037	2,549
Total contingent liabilities	**1,037**	**2,549**

Breakdown of fiduciary transactions (Table 30)

	Current year	Previous year
Fiduciary investments with third-party companies	1'949	4'491
Total	**1'949**	**4'491**

Breakdown of managed assets and presentation of their development (Table 31)

	Current year	Previous year
a) Breakdown of managed assets		
Type of managed assets		
Assets in collective investment schemes managed by the bank	181,841	234,865
Assets under discretionary asset management agreements	228,744	192,190
Other managment asset	1,440,799	1,302,590
Total managed assets (including double counting)	**1,851,384**	**1,729,645**
of which, double counting	*135,763*	*164,779*
b) Presentation of the development of managed assets	Current year	Previous year
Total managed assets (including double counting) at beginning	**1,729,645**	2,090,990
+/- net new money inflow or net new money outflow	104,034	-203,000
+/- price gains / losses, interest, dividends and currency gains / losses	17,705	-158,345
Total managed assets (including double counting) at end	**1,851,384**	**1,729,645**

Managed assets are calculated and recognised in accordance with the accounting guidelines issued by the Swiss Financial Market Supervisory Authority FINMA – Circular 2015/01. Managed assets comprise all assets managed or held for investment purposes by private, corporate and institutional clients, as well as assets in proprietary collective investment schemes. Liabilities are excluded, while amounts due to clients in current accounts, fiduciary deposits and all other assets are included with their valuations. Managed assets deposited with third parties are included to the extent that they are managed by Banca Zarattini & Co. SA. Assets that count more than once, for example, assets recognised in various asset categories are booked to the item "of which, double counting". They mainly comprise shares in proprietary collective investment schemes held in client portfolios.
The breakdown of managed assets and presentation of their development also takes into account the "Other management asset", which the previous year where presented separately as " Assets in custody".

Breakdown of the result from trading activities and the *fair value* option (Table 32)

	Current year	Previous year
a) Breakdown by business area (in accordance with the organisation of the bank / financial group)		
Result from trading activities from:		
Fixed-income trading	6,763	5,889
Other trading activities	170	-118
Currencies	735	874
Total	**7,668**	**6,645**
b) Breakdown by underlying risk and based on the use of the fair value option		
Result from trading activities from:		
Interest rate instruments (excluding funds)	6,779	5,889
Investment funds	154	-118
Currencies	735	874
Total	**7,668**	**6,645**

Breakdown of personnel expenses (Table 34)

	Current year	Previous year
Salaries (meeting attendance fees and fixed compensation to members of the bank's governing bodies, salaries and benefits)	10,573	10,759
of which, expenses relating to share-based compensation and alternative forms of variable compensation	-	-
Social insurance benefits	1,888	1,796
Other personnel expenses	45	61
Total	**12,506**	**12,616**

Breakdown of general and administrative expenses (Table 35)

	Current year	Previous year
Office space expenses	879	893
Expenses for information and communications technology	1,584	1,480
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	16	14
Fees of audit firm(s) (Art. 961a no. 2 CO)	268	263
of which, for financial and regulatory audits	*268*	*263*
of which, for other services	-	-
Other operating expenses	1,714	1,746
of which, compensation for any cantonal guaranteele	-	-
Total	**4,461**	**4,396**

Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment (Table 38)

	Domestic	Foreign
Result from interest operations		
Interest and discount income	1,764	-
Interest and dividend income from trading activities	15	-
Interest and dividend income from financial investments	493	-
Interest expense	-6	-
Gross result from interest operations	**2,266**	**-**
Changes in value adjustments for default risks and losses from interest operations	-32	-
Net result from interest operations	**2,234**	**-**
Result from commission business and services		
Commission income on securities and investment transactions	12,706	-
Commission income from lending activities	62	-
Commission income from other services	248	-
Commission expense	-3,795	-
Result from commission business and services	**9,221**	**-**
Result from trading activities and the fair value option	**7,668**	**-**
Other result from ordinary activities	**493**	**-**
Total income for the period	**19,616**	**-**
Operating expenses		
Personnel expenses	-12,506	-
Other operating expenses	-4,461	-
Total operating expenses	**-16,967**	**-**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	-1,076	-
Changes to provisions and other value adjustments, and losses	-	-
Operating result	**1,573**	**-**

Taxes (Table 39)

	Current year	Previous year
Current tax	440	855
Total tax	**440**	**855**
Average rate on operating result	27.97%	18.14%

Quantitative disclosure Circ. 2008/22 FINMA

(amounts in CHF thousands)

Breakdown of regulatory capital considered

a) Preliminary reconciliation **Balance sheet**	31.12.2016	31.12.2015
Assets		
Liquid assets	28,675	20,985
Amounts due from banks	116,509	191,141
Amounts due from customers	197,542	114,113
Mortgage loans	11,256	10,998
Trading portfolio assets	7,741	20,079
of which, own equity securities	-	-
Positive replacement values of financial derivative financial instrument	335	261
Financial investments	41,279	55,575
of which, own equity securities	-	-
Accrued income and prepaid expenses	1,912	2,594
Tangible fixed assets	12,374	12,420
Intangible assets	-	317
of which goodwill	-	*317*
Other assets	192	257
of which latent tax receivables, dependent on future income	-	-
of which latent tax receivables, arising from temporary differences	-	-
Total assets	**417,815**	**428,740**
Third-party capital		
Amounts due to banks	1,071	218
Amounts due in respect of customer deposits	338,896	347,575
Negative replacement values of derivative financial instruments	1,010	183
Accrued expenses and deferred income	5,535	7,559
Other liabilities	1,072	1,497
Provisions	1,754	1,765
Total third-party capital	**349,338**	**358,797**
Shareholders' equity		
Reserves for general banking risks	11,570	11,570
Bank's capital	20,000	20,000
Statutory retained earnings reserve	5,607	5,451
Voluntary retained earnings reserve	30,207	30,207
Profit for the period net of expected dividend	8	156
Breakdown of shareholders' equity	**67,392**	**67,384**

Breakdown of regulatory capital considered

	NET FIGURES (NET OF IMPACT OF TRANSITIONAL REGULATIONS)	
b) Breakdown of regulatory capital considered	31.12.2016	31.12.2015
Top-quality (CET 1) capital		
Issued and called-up bank's capital, fully payable	20,000	20,000
Statutory retained earnings reserve	5,607	5,451
Reserves for general banking risks	11,570	11,570
Voluntary retained earnings reserve	30,207	30,207
Profit / loss (result of the period) net of expected dividend	8	156
= Top-quality (CET 1) capital before adjustments	**67,392**	**67,384**
Goodwill (net of latent tax)	-	-317
= Sum of adjustments relating to CET 1	**-**	**-317**
Net top-quality (CET 1) capital	**67,392**	**67,067**
TIER 1 Net capital	**67,392**	**67,067**
Net T1 and T2 Total calculable regulatory capital	**67,392**	**67,067**
Sum of risk-weighted positions	**268,675**	**256,393**
CET 1 ratio	**25.08%**	**25.98%**
T1 ratio	**25.08%**	**25.98%**
Ratio relating to total regulatory capital	**25.08%**	**25.98%**

Presentation of required capital

Minimum capital requirements	31.12.2016	31.12.2015
Credit risk (standardized international approach)	15,887	15,130
of which risk evaluation re securities in the bank's portfolio	*1,826*	*2,927*
Non-counterparty risk (standardized Swiss approach)	990	932
Market risk (standardized Swiss approach)	1,090	813
of which on interest rate instruments (de minimis approach)	-	-
of which securities (de minimis approach)	-	-
of which currencies and precious metals (standardised approach)	*1,083*	*802*
of which commodities (standardised approach)	*7*	*11*
Operational risks (basic indicator approach)	3,527	3,637
Total	**21,494**	**20,512**

Requirement according to the transitional regulations of the Ordinance of Own Funds (minimum requirements + capital buffer + countercylical capital buffer)	31.12.2016	31.12.15
Minimum requirements	21,494	20,512
Capital buffer for cat. 5: 2.5%	6,717	6,410
Countercylical capital buffer on credit risks: 2%	64	67
Total capital requirement	**28,275**	**26,989**

Leverage ratio	31.12.2016	31.12.15
Net TIER 1 capital	67,392	67,067
Total commitment for the leverage ratio	419,395	431,251
Leverage ratio in % (ratio of non-weighted capital as per Basel III)	**16.07%**	**15.55%**

Information on the liquidity coverage ratio (LCR)	weighted values (monthlyaverages) 1st quarter 2016	weighted values (monthly averages) 2nd quarter 2016	weighted values (monthly averages) 3rd quarter 2016	weighted values (monthly averages) 4th quarter 2016
Total high-quality liquid assets (HQLA)	25,384	28,498	27,758	29,593
Total net cash outflow	24,715	22,726	24,723	25,052
Liquidity coverage ratio LCR (in %)	**102.71%**	**125.40%**	**112.28%**	**118.13%**

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

Lugano, 28 March 2017

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, statement of changes in equity and notes (pages 5 to 30), for the year ended 31 December 2016.

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 2016 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	Beatrice Groppelli
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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