

# ANNUAL REPORT 2017



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The present document is the English translation of the Italian annual report. In case of dispute the Italian version shall prevail.

## CORPORATE GOVERNANCE

### Board of Directors

|                              |                                    |
|------------------------------|------------------------------------|
| Raffaele Rossetti            | Chairman (independent member)      |
| Joseph Louis Toson           | Vice-Chairman (independent member) |
| Alberto Banfi <sup>(1)</sup> | Director (independent member)      |
| Viktor Dario                 | Director (independent member)      |
| Antonio Sergi <sup>(1)</sup> | Director (independent member)      |

### Auditors

KPMG SA, Lugano

### Executive Management

|  |                                  |
|--|----------------------------------|
| Mauro Scalfi                           | Chief Executive Officer          |
| Gianfranco Basta (until December 2017) | Deputy Chief Executive Officer   |
| Massimo Bertini-Morini (from May 2017) | Vice President Executive Officer |
| Donatella Favalli (from November 2017) | Vice President Executive Officer |
| Luciano Pasqualini (until August 2017) | Vice President Executive Officer |

<sup>(1)</sup> members of the Audit Committee

# BOARD OF DIRECTORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER 2017

During 2017, the global economic activity continued its recovery. Commercial trades have intensified, both in the major advanced as well as in the emerging economies. The economic cycle continued to be expansive in the United States, strengthened in the Euro area and remained positive in Japan. In the emerging countries, growth exceeded expectations.

Except for the United Kingdom, consumer prices showed no signs of recovery. Monetary policies remained extremely accommodative in the Eurozone and Japan. The Federal Reserve partially changed its strategy; a low inflation and a moderate credit lending rate favored the adoption of gradual measures.

The US economy showed a higher than expected growth. This affected positively financial markets and contained the overall volatility. Economic expansion proved to be solid and widespread, supported by all components of the domestic demand. A low unemployment rate and an improvement in salary conditions fueled private consumptions. Investments also showed signs of recovery, supported by expectations of the proposed US fiscal reform.

In the Eurozone growth strengthened, mainly driven by the domestic demand. Moderate wages and wide margins of unused labor force helped to keep the inflation at modest levels. The European Central Bank pursued a highly expansive monetary policy, with the aim of bringing inflation back to values close to 2%. This strategy was partially modified in the last part of the year.

The Japanese economic trend has been positive, supported by favorable conditions in the domestic and international context. The acceleration of growth, fueled by fiscal incentives, was driven by consumptions, fixed investments, both public and private, and by exports. Inflation, net of energy and food components, was modest, allowing the Bank of Japan to extend its expansive monetary policy.

Long-term interest rates did not change, reflecting the widespread expectations of a gradual normalization of monetary policies in the main advanced economies. Corporate bonds, supported by favorable liquidity conditions, showed shrinking yield differentials. Equity indices improved, in some cases significantly. European stocks underperformed US indices, while emerging markets recorded very

# BOARD OF DIRECTORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER 2017

positive results. Technology, industrial and raw materials sectors were rewarding, while a lower relative strength was observed for public utility, energy, and telecom shares. The Euro strengthened against the main currencies. Many emerging market currencies continued their upward movement. The Swiss Franc showed a lower relative strength against the main currencies and depreciated significantly against the Euro, as a consequence of the ongoing negative interest rate policy implemented by the Swiss National Bank.

Positive global macroeconomic conditions sustained the growth of the Swiss economy, especially in the second half of the year. The main beneficiaries were those sectors characterized by a high level of exports. Consumer and business confidence improved.

During 2017 the overall activity of the Bank consolidated and outperformed the economic results achieved in the previous year. The geographical distribution of clients and the range of products handled, widened further. The level of capitalization of the Bank continued to remain high. The excess of free capital available as at 31st December 2017 amounts to over CHF 23.5 million (CHF 23.7 million as at 31st December 2015), with a ratio between eligible and required capital of 416% and a Tier 1 capital ratio of 44,03%.

The net profit for the period amounted to CHF 2'271'823. This result improves the result of the previous year of CHF 2'036'226. During the year, the Bank created reserves for general banking risks for the amount of CHF 240'000, to further increase its net capital position.

Total revenues amounted to CHF 16'296'145 (CHF 16'226'885 in 2016). Total income from interest activities has been equal to CHF 2'789'769 (CHF 2'871'045 in 2016), revenues from commissions and service fees activities amounted to CHF 10'013'534 (CHF 9'604'933 in 2016), revenues from trading operations reached CHF 3'492'842 (CHF 3'750'907 in 2016). Revenues from commissions and service fees include the cost arising from the "asset deal", concluded in 2016, which has made possible the opening of the Zurich branch. In accordance with the contractual agreement this cost will start to reduce in 2018.

# BOARD OF DIRECTORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER 2017

Total costs amounted to CHF 12'378'097 (CHF 12'266'259 in 2016), of which CHF 8'860'066 allocated to personnel expenses (CHF 8'694'621 in 2016) and CHF 3'518'031 to general expenses (CHF 3'571'638 in 2016). Costs for general expenses have been in line with the previous year, notwithstanding the substantial investments made during the year to improve the technological components and the security systems of the Bank.

Total depreciations have been equal to CHF 692'994 (CHF 972'769 in 2016), lower than the previous year for the termination of the yearly amortization of the goodwill arising from the FBS acquisition.

At year's end, total assets from clients amounted to CHF 2'485 million (CHF 1'861 million at the end of 2016) with an increase of approximately 33.0% compared to the previous year. The number of relationships with clients has remained substantially stable. The increase in clients' assets is related to the further improvement of the activity with institutional clients. As at 31st December 2017, the Bank had a total of 53 employees (49.45 "full time equivalent"), compared to 52 employees (48.75 "full time equivalent") as at 31st December 2016.

During the year, the Bank concluded the agreements for the acquisition of the majority of the share capital of Alpe Adria Gestioni SIM SpA, an Italian regulated broker/dealer. At the beginning of 2018 the approval process has been concluded with the release of the necessary authorizations by FINMA and Bank of Italy and the purchase price has been paid. The extraordinary expenses associated with the transaction have been fully amortised in the year. The initiative widens the operational capabilities of the Group, allowing, through the subsidiary, the provision of financial services to clients in Italy.

The activity associated with the issuance of debt instruments, which started in the previous year, has continued. These are recorded under the items "Other financial instruments at fair value" and "Liabilities from other financial instruments at fair value". It relates to the issuance of structured products, with an underlying mainly composed by a security portfolio, underwritten by institutional clients (third banks).

# BOARD OF DIRECTORS' REPORT

## FOR THE FINANCIAL YEAR ENDED 31<sup>ST</sup> DECEMBER 2017

Given the annual result (CHF 2'271'823), the Board of Directors recommends its allocation as follows:

|                           | CHF       |
|---------------------------|-----------|
| To legal reserve          | 140'000   |
| To dividend               | 1'600'000 |
| To profit carried forward | 531'823   |

During 2017, the Bank will further intensify its efforts to expand the services and secure a stable growth of assets and profitability, pursuing the implementation of synergies with the Italian subsidiary.

The Board of Directors expresses its appreciation to all clients, the shareholders, the management and all employees of the Bank.

*The Board of Directors*

# ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## BALANCE SHEET

| December 31 <sup>st</sup>  | Notes | 2017<br>CHF        | 2016<br>CHF        | Change<br>CHF     |
|--|-------|--------------------|--------------------|-------------------|
| <b>ASSETS</b>  |       |                    |                    |                   |
| Liquid assets  |       | 105'485'051        | 73'137'212         | 32'347'839        |
| Amounts due from banks   |       | 83'548'563         | 92'089'864         | -8'541'301        |
| Amounts due from customers   | 2     | 138'922'729        | 162'472'629        | -23'549'900       |
| Mortgage loans   | 2     | 11'727'650         | 6'309'280          | 5'418'370         |
| Trading portfolio assets   | 3     | 15'197'824         | 6'310'075          | 8'887'749         |
| Positive replacement values<br>of derivative financial instruments | 4     | 2'616'273          | 8'107'459          | -5'491'186        |
| Other financial instruments at fair value                          | 3, 14 | 26'003'611         | 1'606'970          | 24'396'641        |
| Accrued income and prepaid expenses                                |       | 1'609'561          | 1'791'466          | -181'905          |
| Participations   | 6, 7  | 50'838             | 13'629             | 37'209            |
| Tangible fixed assets  | 8     | 1'652'044          | 1'675'695          | -23'651           |
| Intangible assets  | 9     | 0                  | 132'816            | -132'816          |
| Other assets   | 10    | 388'620            | 353'445            | 35'175            |
| <b>TOTAL ASSETS</b>  |       | <b>387'202'764</b> | <b>354'000'540</b> | <b>33'202'224</b> |

| December 31 <sup>st</sup>  | Notes | 2017<br>CHF        | 2016<br>CHF        | Change<br>CHF     |
|--|-------|--------------------|--------------------|-------------------|
| <b>LIABILITIES</b>   |       |                    |                    |                   |
| Amounts due to banks   |       | 89'646'302         | 49'434'635         | 40'211'667        |
| Amounts due in respect of customer deposit                         |       | 214'352'447        | 256'599'923        | -42'247'476       |
| Negative replacement values<br>of derivative financial instruments | 4     | 2'828'448          | 8'062'828          | -5'234'380        |
| Liabilities from other financial<br>instruments at fair value      | 3, 14 | 42'715'690         | 2'802'196          | 39'913'494        |
| Accrued expenses and deferred income                               |       | 3'603'635          | 4'458'393          | -854'758          |
| Other liabilities  | 10    | 369'955            | 288'816            | 81'139            |
| Provisions   | 16    | 414'284            | 543'569            | -129'285          |
| Reserves for general banking risks                                 | 16    | 240'000            | 0                  | 240'000           |
| Bank's capital   |       | 30'000'000         | 30'000'000         | 0                 |
| Legal reserve from profits   |       | 110'000            | 0                  | 110'000           |
| Profit carried forward / loss carried forward                      |       | 650'180            | -226'046           | 876'226           |
| Profit (result of the period)                                      |       | 2'271'823          | 2'036'226          | 235'597           |
| <b>TOTAL LIABILITIES</b>   |       | <b>387'202'764</b> | <b>354'000'540</b> | <b>33'202'224</b> |



# ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## OFF-BALANCE SHEET TRANSACTIONS

| December 31 <sup>st</sup>             | Notes | 2017<br>CHF | 2016<br>CHF | Change<br>CHF |
|---------------------------------------|-------|-------------|-------------|---------------|
| <b>Off-Balance Sheet transactions</b> |       |             |             |               |
| Contingent liabilities                | 2, 28 | 424'308     | 794'701     | -370'393      |
| Irrevocable commitments               | 2     | 514'000     | 596'000     | -82'000       |
| Fiduciary transactions                | 30    | 48'424'065  | 46'673'416  | 1'750'649     |

# ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## INCOME STATEMENT

|   | Notes | 2017<br>CHF        | 2016<br>CHF        | Change<br>CHF   |
|---|-------|--------------------|--------------------|-----------------|
| <b>Result from interest operations</b>  |       |                    |                    |                 |
| Interest and discount income  |       | 2'698'625          | 2'705'781          | -7'156          |
| Interest and dividend income<br>from trading portfolios   |       | 54'767             | 58'971             | -4'204          |
| Interest expenses   |       | 36'377             | 106'293            | -69'916         |
| <b>Subtotal:</b>  |       |                    |                    |                 |
| <b>Net result from interest operations</b>  |       | <b>2'789'769</b>   | <b>2'871'045</b>   | <b>-81'276</b>  |
| <b>Result from commission<br/>business and services</b>   |       |                    |                    |                 |
| Commission income from securities<br>trading and investment activities  |       | 15'103'108         | 12'597'294         | 2'505'814       |
| Commission income from lending activities   |       | 26'584             | 18'282             | 8'302           |
| Commission income from other services   |       | 1'146'661          | 1'685'935          | -539'274        |
| Commission expenses   |       | -6'262'819         | -4'696'578         | -1'566'241      |
| <b>Subtotal: Result from<br/>commission business and services</b>   |       | <b>10'013'534</b>  | <b>9'604'933</b>   | <b>408'601</b>  |
| <b>Result from trading activities<br/>and the fair value option</b>   | 32    | <b>3'492'842</b>   | <b>3'750'907</b>   | <b>-258'065</b> |
| <b>Operating expenses</b>   |       |                    |                    |                 |
| Personnel expenses  | 34    | -8'860'066         | -8'694'621         | -165'445        |
| General and administrative expenses   | 35    | -3'518'031         | -3'571'638         | 53'607          |
| <b>Subtotal: Operating expenses</b>   |       | <b>-12'378'097</b> | <b>-12'266'259</b> | <b>-111'838</b> |
| Value adjustment on participations as well as<br>depreciation and amortisations of tangible<br>fixed assets and intangible assets |       | -692'994           | -972'769           | 279'775         |
| Changes to provisions and<br>other value adjustments, losses  | 16    | -74'654            | -240'000           | 165'346         |
| <b>Operating result</b>   |       | <b>3'150'400</b>   | <b>2'747'857</b>   | <b>402'543</b>  |
| Extraordinary income  | 36    | 39'351             | 15'741             | 23'610          |
| Changes in reserves for general banking risks   | 16    | -240'000           | 0                  | -240'000        |
| Taxes   | 39    | -677'928           | -727'372           | 49'444          |
| <b>Profit (result of the period)</b>  |       | <b>2'271'823</b>   | <b>2'036'226</b>   | <b>235'597</b>  |

# ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## ALLOCATION OF BALANCE SHEET RESULT

### Allocation of Balance Sheet result

|                                     | 2017<br>CHF      | 2016<br>CHF      |
|-------------------------------------|------------------|------------------|
| Proposal of the Board of Directors  |                  |                  |
| Profit (Loss) carried forward       | 650'180          | -226'046         |
| Profit of the year                  | 2'271'823        | 2'036'226        |
| <b>Available Profit</b>             | <b>2'922'003</b> | <b>1'810'180</b> |
| <b>Allocation of result</b>         |                  |                  |
| Allocation to legal reserve         | 140'000          | 110'000          |
| Dividend distribution               | 1'600'000        | 1'050'000        |
| <b>Profit to be carried forward</b> | <b>1'182'003</b> | <b>650'180</b>   |

### Statement of changes in shareholders' equity

|  | 2017                     |                             |   |  |                                |                   |
|--|--------------------------|-----------------------------|---|--|--------------------------------|-------------------|
|  | Bank's<br>capital<br>CHF | Earnings<br>reserves<br>CHF | Reserves for<br>general<br>banking risks<br>CHF | Profit / (Loss)<br>carried<br>forward<br>CHF | Result of<br>the period<br>CHF | Total<br>CHF      |
| <b>Equity at start<br/>of current period</b>                                 | <b>30'000'000</b>        | <b>0</b>                    | <b>0</b>  | <b>-226'046</b>                              | <b>2'036'226</b>               | <b>31'810'180</b> |
| Dividends and other distributions  |                          |                             |   |  | -1'050'000                     | -1'050'000        |
| Other allocations to / withdrawal<br>from reserves for general banking risks |                          |                             | 240'000   |  |                                | 240'000           |
| Other allocations to / withdrawal<br>from other reserves                     |                          | 110'000                     |   |  |                                | 110'000           |
| Other allocations to profit / loss<br>carried forward (allocation of result) |                          |                             |   | 876'226                                      | -986'226                       | -110'000          |
| Profit (result of the period)  |                          |                             |   |  | 2'271'823                      | 2'271'823         |
| <b>Equity at end of current period</b>                                       | <b>30'000'000</b>        | <b>110'000</b>              | <b>240'000</b>                                  | <b>650'180</b>                               | <b>2'271'823</b>               | <b>33'272'003</b> |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 1. General notes

#### Introduction

Banca Credinvest SA (hereinafter also "the Bank") is an independent Swiss bank based in Lugano. The Bank provides investment / portfolio management and private banking services for both institutional and private clients. The year-end date of the annual Financial Statements is 31<sup>st</sup> December.

The number of employees at the end of 2017 was 53, equivalents to 49.45 full-time staff (31.12.2016: 52 employees equivalent to 48.75 full-time staff at Group level).

Following art. 16 of the Swiss Capital Adequacy Ordinance (CAO) as well as the guidelines (Circular 2008/22) of the Swiss Financial Market Supervisory Authority FINMA (hereinafter FINMA), Banca Credinvest publishes its own available and required capital. Information can be obtained on the Bank's website ([www.credinvest.ch](http://www.credinvest.ch)).

#### Risk management

Banca Credinvest SA has established specific regulation (General Risk Regulations) to identify, manage and control all potential risks associated with the Bank's activity.

As defined by FINMA Circular 2017/1 "Corporate governance - banks", the Board of Directors of the Bank has issued a specific internal directive on "Surveillance and Control" which, together with several other directives presently in place, represents a comprehensive instrument for the control, surveillance and mitigation of all risks.

The Board of Directors constantly examines the main risks at which the Bank is exposed. In particular, the Board of Directors has examined, on the basis of the internal documentation prepared by the Risk Manager and the Internal Control Committee, those risks with significant impact on the Annual Accounts. When necessary, adequate measures have been taken. The main risks are described thereafter:

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

- Credit risk

This risk is kept under control by monitoring all collaterals. Credit facilities given to clients are mainly “Lombard loans” made available only if supported by adequate guarantees. Responsibilities, limits and haircuts percentages applied to credit facilities are set in the internal directives in accordance with the applicable requirements. The Loans Division must regularly carry out, using specific IT applications, the following controls:

- Control on cash withdrawals/outgoing bank transfers for (i) amounts exceeding collateralized value of assets, (ii) amounts that decrease the assets pledged in favor of third parties;
- Control on customers with insufficient and/or unsecured coverage (by over 5%);
- Control on all amounts exceeding the collateralized values for pledged assets;
- Notification to the Relationship Managers of all customers exceeding allowed limits values without a deed of pledge or without a global limit or without a signed customer letter, with a copy sent to the Loans Committee;
- Minutes of the Loans Committee;
- List of customers with loans;
- List of assets in place for each customer with a credit facility;
- List of customers without a signed deed of pledge.

The Loans Division reports, on a quarterly basis, to the Loans Committee all irregular positions, whether formal or substantial, as well as positions with compromised interest and fees. The General Management, when deemed appropriate, immediately informs the Chairman of the Board of Directors about positions considered to be critical.

- Market risk

Each banking institution, in dealing with securities and financial instruments, is subject to this kind of risk. Banca Credinvest SA has adopted a policy for monitoring financial markets and preventing this kind of risk. The Bank assumes market risks on a residual basis in order to counterbalance the clients' activity. Proprietary investments are mainly limited to bond positions with high rating and a short residual life.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The Bank's operations on its own portfolio are governed by an internal directive. The proprietary portfolio is constantly monitored against the limits established by the Board of Directors. A detailed list of the positions in the proprietary portfolio (trading and financial investments portfolio) is submitted to the Board of Directors at least twice a year, specifying the investment policy adopted. The General Management informs the Board of Directors if the loss on positions in the account, with respect to the purchase price and/or book value at the end of the previous financial year, exceeds 5% of total own funds, as defined in the Business and Organization Rules (BOR). The Bank carries out foreign exchange transactions within the limits established in an internal directive. The General Management informs the Board of Directors if the loss on exchange rate operations exceeds CHF 500 thousand from the beginning of the year.

- Interest rate risk

The Bank has a limited exposure to this kind of risk as assets and liabilities maturities are matched. Exposure to interest rate risk is measured with specific software systems.

- Legal and reputational risk

This risk category is monitored by the Head of the Legal & Compliance department who supervises the respect of regulations as well as the duties imposed to each financial intermediary. He is responsible for monitoring the current legal developments and to adapt all internal procedures to any new legal regulation.

- Operational risk

Operational risk is mitigated through internal procedures and regulations. Control activities are an integral part of daily operational duties.

- Liquidity and refinancing risk

Such risk is measured on the basis of specific IT procedures and mitigated through a broad diversification of the financing sources, which originate mainly from clients' and interbank deposits.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### **Outsourcing**

Banca Credinvest SA has entered into an outsourcing contract with AnaSys AG, Zurich (before D+H Suisse Sàrl) for interbank swift messages. The contract is considered as outsourcing under the terms of the FINMA Circular 2008/7.

### **2. Accounting and valuation principles**

The Bank's Financial Statements are prepared in accordance with the requirements of the Swiss Code of Obligations, the Federal Law on Banks, the FINMA Circ. 2015/1 on accounting rules as well as corporate by-laws.

All transactions carried out by the Bank are recorded on the date when they occur (trade date). Assets, liabilities and off-Balance Sheet transactions are valued individually.

### **Foreign currencies**

The Bank makes use of a multi-currency accounting system. All foreign currency transactions are recorded in the currency in which they have been concluded.

Assets and liabilities denominated in foreign currencies are converted at the exchange rate prevailing at the end of the financial period. Revenues and costs are converted into CHF at the exchange rate applicable on the day when the transaction took place.

The main exchange rates used to convert end-period Balance Sheet items are: EUR 1.1687 (31.12.2016: 1.0738); USD 0.9778 (31.12.2016: 1.0186).

### **Cash, amounts due from banks and amounts due to banks**

Are recorded in the Balance Sheet at their nominal value.

### **Due from customers**

They are recorded in the Balance Sheet at their nominal value. If the repayment of a credit is, totally or partially, compromised, the Bank makes specific

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

provisions on the basis of a prudent approach in deduction of the relevant asset value. The Bank does not make general provisions.

If a borrower is late in the payment of interests by more than 90 days, the related loan would be regarded as non performing and would be recorded in the appropriate account "Changes in value adjustments for default risks and losses from interest operations". The related revenue will be recorded only when received. The Bank considers a loan to be non-performing when it is unlikely that the borrower is in the position to meet his future obligations. The amount of the provision is the difference between the book value of the credit exposure and the realizable value of the collateral guarantees, and it is deducted from the relevant asset value.

Off-Balance Sheet transactions are valued in the same way.

### *Valuation of collaterals*

The Bank has defined in its internal lending rules the limits and haircuts percentages to be applied to credit facilities. Loans are usually granted against deed of pledge in favor of the Bank.

To properly weight the ratings assigned to bonds, the Loans Division uses the better of the two worst ratings issued by Standard & Poor's, Moody's and Fitch. In the case a rating is issued only by two of the agencies, the lower of the two is used. If only one agency issues a rating, the security is assigned this rating.

Mortgages are advanced on the basis of the market value of the real estate asset, limited to residential housing located in Switzerland.

### **Securities and precious metals trading portfolio**

The valuation is made at fair value, being the year-end market price quoted on a recognized stock exchange. For securities traded for its own account, the Bank has set limits, which are checked on a daily basis.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### **Other financial instruments at fair value (assets and liabilities)**

The Bank issued structured notes with an underlying, mainly composed, by a security portfolio, underwritten by institutional clients (third banks) and recorded under items "Other financial instruments at fair value" and "Liabilities from other financial instruments at fair value."

The financial instruments are valued at fair value and their risks are managed in the same way as those of trading activities. There is an economic hedging relationship between the financial instruments on the asset side and those on the liability side that is largely offset in terms of income by the fair value valuation of the relevant liability.

### **Financial investments**

Financial investments include all financial investments not held for trading. Fixed-income securities are held until maturity. The difference between the purchase price and the redemption value is accrued over the number of years between the date of acquisition and the maturity date. All other securities are valued according the principle of lower of cost or market value (LOCOM).

### **Participations**

This item includes all participations held by the Bank as long-term investments. The valuation is made on the basis of the purchase price less any economically necessary depreciation. These depreciations are included in item "Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets".

### **Tangible fixed assets and Intangible assets**

Fixed assets are recorded in the Balance Sheet at their acquisition cost less annual depreciations. Depreciation is computed using the straight-line method as follows:

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

|   |          |
|---|----------|
| • technological appliances, hardware and software                                 | 3 years  |
| • installation  | 10 years |
| • other fixed assets<br>(costs of incorporation, equipment and furnishings, etc.) | 5 years  |
| • intangible assets (goodwill)  | 6 years  |

The valuation criteria is verified on an annual basis.

During 2013, the fulfilment of the contractual clauses agreed upon at the time of the transfer of the ownership of Fideuram Bank (Suisse) SA ("FBS") FBS conducted to a reduction of the original purchase price (disposal of the goodwill) by CHF 2'186'780 following the reduction of clients' assets compared to those in place at closing. Considering that the original yearly depreciation amount has not changed, such adjustment has conducted to a reduction of the depreciation period from 10 to approximately 6 years.

In March 2017, the last depreciation instalment of the goodwill paid to the seller for the purchase of FBS has been registered. The valuation of such goodwill was made on the basis of the assets under management of the purchased bank and was subject to yearly review (impairment test).

### **Accrued income and prepaid expenses**

All revenues and charges are recorded on the basis of the accrual method.

### **Due to customers**

All amounts due to customers are expressed at their nominal value. They are classified in the Liabilities section of the Balance Sheet under "Due to customers" as they do not qualify as "Savings or investments".

### **Liabilities to own pension schemes**

For all employees, Banca Credinvest SA has joined an independent social security institution. The foundation covers all obligations defined by the LPP law, as well as additional fringe benefits. The pension plans are conformed to the Swiss GAAP FER 16 directives.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

At the end of the period under review, following the same procedure adopted in the past, there is no need for the Bank to record any engagement towards the social security foundation and no need to record any kind of residual employer's contributions. Employer's charges are included in "Personnel expenses". As defined in the social contract, staff is insured with an independent social security institution through an insurance policy. Such insurance policy has been made in the term of a global agreement that covers investment risks as well as technical-insurance risks and provides at all times a 100% coverage. Consequently, Banca Credinvest SA does not have any economic advantage or any other coverage obligation.

### **Reserves for general banking risks**

According to the Swiss Capital Adequacy Ordinance (CAO) these reserves are considered regulatory capital. Reserves for general banking risks are not taxed.

### **Result from interest operations**

In accordance with Annex 3 mn A3-10 and mn A3-19 of FINMA Circular 2015/1, the payment of negative interests on lending operations are recorded in deduction of interest income (2017: CHF 319'123; 2016: CHF 335'787) and interest income arising from borrowings are recorded in deduction of interest expenses (2017: CHF 56'922; 2016: CHF 106'631).

### **Taxation**

Current taxes, recorded in the Income Statement, are computed according to current tax rules. Taxes on capital are calculated on the taxable capital at the period end. The associated provision is recorded in the liability section of the Balance Sheet in the caption "Accrued expenses and deferred income".

### **Valuation adjustments and provisions**

Following the principle of prudence, specific valuation adjustments and provisions are made for all operating risks and requirements that have been identified at the Balance Sheet date.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### **Contingent liabilities**

Contingent liabilities are recorded at their nominal value. For all potential risks the Bank makes provisions in the liability section of the Balance Sheet.

### **Derivative Financial Instruments**

Banca Credinvest SA executes transactions in derivative financial instruments mainly on behalf of its own customers. Positive and negative replacement values are recorded at their market value and are included in the Balance Sheet under the caption “Positive replacement values of derivative financial instruments” and “Negative replacement values of derivative financial instruments”.

### **Changes in accounting principles**

The Bank has not made any change in the application of the accounting principles during the financial year.

### **Significant post Balance Sheet events**

At the beginning of 2018 the Bank concluded the acquisition of the majority of the share capital of Alpe Adria Gestioni SIM SpA, an Italian regulated broker/dealer. The initiative widens the operational capabilities of the Group, allowing, through the subsidiary, the provision of financial services to clients in Italy.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 1 Breakdown of securities financing transactions (assets and liabilities)

N/A

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

|  | Type of collateral            |   |                           |   |
|--|-------------------------------|---|---------------------------|---|
|  | Secured<br>by mortgage<br>CHF | Other<br>collateral<br>CHF                                | Unsecured<br>CHF          | Total<br>CHF                              |
| <b>Loans (before value adjustments)</b>                        |                               |   |                           |   |
| Amounts due from customers                                     | 0                             | 138'752'664   | 170'065                   | 138'922'729                               |
| Mortgage loans   |                               |   |                           |   |
| - Residential property   | 11'727'650                    | 0   | 0                         | 11'727'650                                |
| - Office and business premises                                 | 0                             | 0   | 0                         | 0   |
| - Commercial and industrial premises                           | 0                             | 0   | 0                         | 0   |
| - Other  | 0                             | 0   | 0                         | 0   |
| <b>Total loans<br/>(before netting with value adjustments)</b> |                               |   |                           |   |
| <b>31.12.17</b>  | <b>11'727'650</b>             | <b>138'752'664</b>  | <b>170'065</b>            | <b>150'650'379</b>                        |
| 31.12.16   | 6'309'280                     | 162'354'432   | 118'197                   | 168'781'909                               |
| <b>Total loans<br/>(after netting with value adjustments)</b>  |                               |   |                           |   |
| <b>31.12.17</b>  | <b>11'727'650</b>             | <b>138'752'664</b>  | <b>170'065</b>            | <b>150'650'379</b>                        |
| 31.12.16   | 6'309'280                     | 162'354'432   | 118'197                   | 168'781'909                               |
| <b>Off-balance-sheet</b>                                       |                               |   |                           |   |
| Contingent liabilities   | 0                             | 309'469   | 114'839                   | 424'308                                   |
| Irrevocable commitments  | 0                             | 0   | 514'000                   | 514'000                                   |
| Obligations to pay up shares<br>and make further contributions | 0                             | 0   | 0                         | 0   |
| Credit commitments   | 0                             | 0   | 0                         | 0   |
| <b>Total off-balance-sheet</b>                                 |                               |   |                           |   |
| <b>31.12.17</b>  | <b>0</b>                      | <b>309'469</b>  | <b>628'839</b>            | <b>938'308</b>                            |
| 31.12.16   | 0                             | 682'213   | 708'488                   | 1'390'701                                 |
| <b>Impaired loan / receivables</b>                             |                               |   |                           |   |
|  | Gross debt<br>amount<br>CHF   | Estimated<br>liquidation<br>value of<br>collateral<br>CHF | Net debt<br>amount<br>CHF | Individual<br>value<br>adjustments<br>CHF |
| <b>Impaired loans / receivables</b>                            |                               |   |                           |   |
| <b>31.12.2017</b>  | <b>0</b>                      | <b>0</b>  | <b>0</b>                  | <b>0</b>                                  |
| 31.12.2016   | 0                             | 0   | 0                         | 0   |

There are no impaired loans at the end of the period under review.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

| <b>Assets</b><br>31 <sup>st</sup> December  | 2017<br>CHF       | 2016<br>CHF      |
|---|-------------------|------------------|
| <b>Trading portfolio assets</b>   |                   |                  |
| Debt securities, money market securities / transactions   | 8'284'805         | 6'310'075        |
| - of which, listed  | 8'284'805         | 6'310'075        |
| Equity securities   | 0                 | 0                |
| Precious metals and commodities   | 0                 | 0                |
| Structured products   | 6'913'019         | 0                |
| <b>Total trading portfolio assets</b>   | <b>15'197'824</b> | <b>6'310'075</b> |
| <b>Other financial instruments at fair value</b>  |                   |                  |
| Debt securities   | 0                 | 0                |
| Structured products   | 26'003'611        | 1'606'970        |
| Other   | 0                 | 0                |
| <b>Total other financial instruments at fair value</b>  | <b>26'003'611</b> | <b>1'606'970</b> |
| <b>Total assets</b>   | <b>41'201'435</b> | <b>7'917'045</b> |
| - of which, determined using a valuation model  | 0                 | 0                |
| - of which, securities eligible for repurchase transactions in accordance with liquidity requirements | 0                 | 0                |
| <b>Liabilities</b><br>31 <sup>st</sup> December   | 2017<br>CHF       | 2016<br>CHF      |
| <b>Trading portfolio liabilities</b>  |                   |                  |
| Debt securities, money market securities / transactions   | 0                 | 0                |
| - of which, listed  | 0                 | 0                |
| Equity securities   | 0                 | 0                |
| Precious metals and commodities   | 0                 | 0                |
| Other trading portfolio assets  | 0                 | 0                |
| <b>Total trading portfolio liabilities</b>  | <b>0</b>          | <b>0</b>         |
| <b>Other financial instruments at fair value</b>  |                   |                  |
| Debt securities   | 0                 | 0                |
| Structured products   | 42'715'690        | 2'802'196        |
| Other   | 0                 | 0                |
| <b>Total other financial instruments at fair value</b>  | <b>42'715'690</b> | <b>2'802'196</b> |
| <b>Total liabilities</b>  | <b>42'715'690</b> | <b>2'802'196</b> |
| - of which, determined using a valuation model  | 0                 | 0                |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

|  | Trading instruments                      |                                    |  | Hedging instruments                |                                    |                         |
|--|--|------------------------------------|--|------------------------------------|------------------------------------|-------------------------|
|  | Positive replacement values<br>CHF       | Negative replacement values<br>CHF | Contract volumes<br>CHF                  | Positive replacement values<br>CHF | Negative replacement values<br>CHF | Contract volumes<br>CHF |
| <b>Foreign exchange / Precious metals</b>      |  |                                    |  |                                    |                                    |                         |
| Forward contracts                              | 219'141                                  | 423'977                            | 53'002'069                               | 0                                  | 0                                  | 0                       |
| Combined interest rate/currency swaps          | 1'760'572                                | 1'767'911                          | 355'146'231                              | 0                                  | 0                                  | 0                       |
| Futures  | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| Options (OTC)                                  | 240'151                                  | 240'151                            | 26'338'011                               | 0                                  | 0                                  | 0                       |
| Options (exchange-traded)                      | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| <b>Total</b>                                   | <b>2'219'864</b>                         | <b>2'432'039</b>                   | <b>434'486'311</b>                       | <b>0</b>                           | <b>0</b>                           | <b>0</b>                |
| <b>Foreign exchange / Precious metals</b>      |  |                                    |  |                                    |                                    |                         |
| Forward contracts                              | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| Combined interest rate/currency swaps          | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| Futures  | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| Options (OTC)                                  | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| Options (exchange-traded)                      | 396'409                                  | 396'409                            | 134'189'363                              | 0                                  | 0                                  | 0                       |
| <b>Total</b>                                   | <b>396'409</b>                           | <b>396'409</b>                     | <b>134'189'363</b>                       | <b>0</b>                           | <b>0</b>                           | <b>0</b>                |
| <b>Total before netting agreements</b>         |  |                                    |  |                                    |                                    |                         |
| <b>31.12.17</b>                                | <b>2'616'273</b>                         | <b>2'828'448</b>                   | <b>568'675'674</b>                       | <b>0</b>                           | <b>0</b>                           | <b>0</b>                |
| - of which, determined using a valuation model | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| 31.12.16                                       | 8'107'459                                | 8'062'828                          | 411'685'494                              | 0                                  | 0                                  | 0                       |
| - of which, determined using a valuation model | 0  | 0                                  | 0  | 0                                  | 0                                  | 0                       |
| <b>Total after netting agreements</b>          |  |                                    |  |                                    |                                    |                         |
|  | Positive replacement values (cumulative) |                                    | Negative replacement values (cumulative) |                                    |                                    |                         |
| <b>31.12.2017</b>                              | <b>2'616'273</b>                         |                                    | <b>2'828'448</b>                         |                                    |                                    |                         |
| 31.12.2016                                     | 8'107'459                                |                                    | 8'062'828                                |                                    |                                    |                         |

The Bank does not apply netting agreements in the presentation of the above-mentioned scheme.

| Breakdown by counterparty                              | Central clearing houses | Banks and securities dealers | Other customers |
|--|-------------------------|------------------------------|-----------------|
| Positive replacement values (after netting agreements) |                         | 1'408'000                    | 1'208'273       |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 5 Breakdown of financial investments

N/A

### 6 Presentation of participations

| 31 <sup>st</sup> December   | 2017             |   |                              |                    |               |                 |                  |  |                                       |   |
|-----------------------------|------------------|---|------------------------------|--------------------|---------------|-----------------|------------------|--|---------------------------------------|---|
|                             | Acquisition cost | Depreciation and/or value adjustments (equity method) to date | Book value previous year end | Reclas-sifications | Investments   | Disinvest-ments | Value adjustment | Value adjustments of holdings valued at equity | Book value at the end of current year | Market value at the end of current year |
|                             | CHF              | CHF   | CHF                          | CHF                | CHF           | CHF             | CHF              | CHF  | CHF                                   | CHF                                     |
| Other participations        |                  |   |                              |                    |               |                 |                  |  |                                       |   |
| Not listed                  | 13'629           | 0   | 13'629                       | 0                  | 50'838        | 13'629          | 0                | 0  | 50'838                                | 0                                       |
| <b>Total participations</b> | <b>13'629</b>    | <b>0</b>  | <b>13'629</b>                | <b>0</b>           | <b>50'838</b> | <b>13'629</b>   | <b>0</b>         | <b>0</b>                                       | <b>50'838</b>                         | <b>0</b>                                |

### 7 Disclosure of companies in which the bank holds a permanent direct or indirect significant participation as at December 31<sup>st</sup>, 2017

| Company, domicile             | Business activity | Currency | Share capital | Share of capital in % | Share of votes in % | Direct holding | Indirect holding |
|-------------------------------|-------------------|----------|---------------|-----------------------|---------------------|----------------|------------------|
| Garm & Partners S.R.L., Milan | Services          | EUR      | 100'000       | 47.05%                | 47.05%              | 47'050         | 47'050           |



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 8 Presentation of tangible fixed assets

|                                    | Acquisition cost<br>CHF | Accumulated depreciation at the beginning of the year<br>CHF | Book value at the beginning of the year<br>CHF | 2017                     |                  |                  |                     |                  | Book value at the end of current year<br>CHF |
|------------------------------------|-------------------------|--|--|--------------------------|------------------|------------------|---------------------|------------------|--|
|                                    |                         |  |  | Reclassifications<br>CHF | Additions<br>CHF | Disposals<br>CHF | Depreciation<br>CHF | Reversals<br>CHF |  |
| Software                           | 1'808'787               | -1'481'856   | 326'931  | 0                        | 125'661          | 0                | -187'618            | 0                | 264'974                                      |
| Other tangible fixed assets        | 3'213'765               | -1'864'999   | 1'348'764                                      | 245'828                  | 410'866          | 0                | -372'560            | 0                | 1'387'070                                    |
| <b>Total tangible fixed assets</b> | <b>5'022'552</b>        | <b>-3'346'855</b>  | <b>1'675'695</b>                               | <b>245'828</b>           | <b>536'527</b>   | <b>0</b>         | <b>-560'178</b>     | <b>0</b>         | <b>1'652'044</b>                             |

### Operating leases: total amount not included in the Balance Sheet

|                          | Total 31.12.17<br>CHF | Within 1 year<br>CHF | from 1 to 2 years<br>CHF | from 2 to 3 years<br>CHF | from 3 to 4 years<br>CHF | from 4 to 5 years<br>CHF | over 5 years<br>CHF |
|--------------------------|-----------------------|----------------------|--------------------------|--------------------------|--------------------------|--------------------------|---------------------|
| Future leasing payments: | 11'674                | 4'956                | 4'956                    | 1'762                    | 0                        | 0                        | 0                   |
| Future rental payments:  | 2'156'250             | 625'000              | 531'250                  | 500'000                  | 500'000                  | 0                        | 0                   |
| <b>Total</b>             | <b>2'167'924</b>      | <b>629'956</b>       | <b>536'206</b>           | <b>501'762</b>           | <b>500'000</b>           | <b>0</b>                 | <b>0</b>            |

### 9 Presentation of intangible assets

|                                 | Cost value<br>CHF | Accumulated amortisation<br>CHF | Book value at previous year end<br>CHF | 2017             |                  |                     |  | Book value at the end current year<br>CHF |
|---------------------------------|-------------------|---------------------------------|--|------------------|------------------|---------------------|--|---|
|                                 |                   |                                 |  | Additions<br>CHF | Disposals<br>CHF | Amortisation<br>CHF |  |   |
| Goodwill                        | 3'612'216         | -3'479'400                      | 132'816                                | 0                | 0                | -132'816            |  | 0   |
| <b>Totale intangible assets</b> | <b>3'612'216</b>  | <b>-3'479'400</b>               | <b>132'816</b>                         | <b>0</b>         | <b>0</b>         | <b>-132'816</b>     |  | <b>0</b>                                  |

In March 2017, the last depreciation instalment of the goodwill paid to the seller for the purchase of Fideuram Bank (Suisse) SA ("FBS") has been registered. The valuation of such goodwill was made on the basis of the assets under management of the purchased bank and was subject to yearly review (impairment test).

### 10 Breakdown of other assets and other liabilities

| 31 <sup>st</sup> December              | Other assets   |                | Other liabilities |                |
|--|----------------|----------------|-------------------|----------------|
|  | 2017<br>CHF    | 2016<br>CHF    | 2017<br>CHF       | 2016<br>CHF    |
| Guarantee deposits                     | 300            | 300            | 0                 | 0              |
| Indirect taxes                         | 234'205        | 73'345         | 369'955           | 288'816        |
| Payments on account of accrued rebates | 151'840        | 242'230        | 0                 | 0              |
| Other assets                           | 2'275          | 37'570         | 0                 | 0              |
| <b>Totale</b>                          | <b>388'620</b> | <b>353'445</b> | <b>369'955</b>    | <b>288'816</b> |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 11 Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

| 31 <sup>st</sup> December  | 2017       |                       | 2016       |                       |
|--|------------|-----------------------|------------|-----------------------|
|  | CHF        | CHF                   | CHF        | CHF                   |
|  | Book value | Effective commitments | Book value | Effective commitments |
| <b>Pledged / assigned assets</b>   |            |                       |            |                       |
| Pledged assets to guarantee stock market and foreign exchange activities | 9'737'231  | 9'737'231             | 12'073'169 | 12'073'169            |
| Guarantee deposits   | 300        | 300                   | 300        | 300                   |

### 12 Disclosure of liabilities relating to own pension schemes

| a) Employer contribution reserves (ECR) | Nominal value at current year end | Waiver of use at current year end | Net amount at current year end | Net amount at previous year end | Influence of ECR on personnel expenses at current year end | Influence of ECR on personnel expenses at previous year end |
|---|-----------------------------------|-----------------------------------|--------------------------------|---------------------------------|--|---|
|   | 2017                              | 2017                              | 2017                           | 2016                            | 2017   | 2016  |
|   | CHF                               | CHF                               | CHF                            | CHF                             | CHF  | CHF   |
| <b>ECR</b>                              |                                   |                                   |                                |                                 |  |   |
| Employer sponsored funds                |                                   |                                   |                                |                                 |  |   |
| - Employer sponsored pensions scheme    | 0                                 | 0                                 | 0                              | 0                               | 0  | 0   |
| - Pension scheme                        | 0                                 | 0                                 | 0                              | 0                               | 0  | 0   |

| b) Presentation of the economic benefit / obligation and the financial cost | Overfunding/ underfunding at end of current year | Economic interest of the bank/financial group at end of current year | Economic interest of the bank/financial group at end of previous year | Change in economic interest (economic benefit / obligation versus previous year | Contributions paid for the current period | Pension expenses included in personnel expenses at end of current year | Pension expenses included in personnel expenses at end of previous year |
|---|--|--|---|---|---|--|---|
|   | 2017   | 2017   | 2017  | previous year   | 2017                                      | 2017   | 2016  |
|   | CHF  | CHF  | CHF   | CHF   | CHF                                       | CHF  | CHF   |
| Pension plans without overfunding / under-funding                           | 0  | 0  | 0   | 0   | 0   | 733'426  | 692'780   |

For pension and social security purposes Banca Credinvest has covered its own staff through a collective scheme promoted by "Fondazione collettiva LPP Swiss Life". All insurance and investment risks are entirely covered by the Swiss Life Group.

Neither economic liabilities nor economic benefits towards the pension scheme did exist at year end. The pension scheme did not have any reserve pertaining to employer's contributions.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 13 Disclosure on the economic situation of own pension schemes

N/A

### 14 Presentation of issued structured products

|  | Book value                         |   |                                     |                                | Total      |
|--|------------------------------------|---|-------------------------------------|--------------------------------|------------|
|  | Valued as a whole                  |   | Valued separately                   |                                |            |
|  | Booked in trading portfolio<br>CHF | Booked in other financials instruments at fair value<br>CHF | Value of the host instrument<br>CHF | Value of the derivative<br>CHF |            |
|  |                                    |   |                                     |                                | CHF        |
| Interest rate instruments                  |                                    |   |                                     |                                |            |
| With own debenture component (oDC)         | 0                                  | 0   | 0                                   | 0                              | 0          |
| Without oDC                                | 0                                  | 0   | 0                                   | 0                              | 0          |
| Equity securities                          |                                    |   |                                     |                                |            |
| With own debenture component (oDC)         | 6'913'019                          | 22'891'758  | 0                                   | 0                              | 29'804'777 |
| Without oDC                                | 0                                  | 0   | 0                                   | 0                              | 0          |
| Foreign currencies                         |                                    |   |                                     |                                |            |
| With own debenture component (oDC)         | 0                                  | 12'910'913  | 0                                   | 0                              | 12'910'913 |
| Without oDC                                | 0                                  | 0   | 0                                   | 0                              | 0          |
| Commodities / precious metals              |                                    |   |                                     |                                |            |
| With own debenture component (oDC)         | 0                                  | 0   | 0                                   | 0                              | 0          |
| Without oDC                                | 0                                  | 0   | 0                                   | 0                              | 0          |
| Total as at December 31 <sup>st</sup> 2017 | 6'913'019                          | 35'802'671  | 0                                   | 0                              | 42'715'690 |

### 15 Presentation of outstanding bonds and mandatory convertible bonds

N/A

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 16 Presentation of value adjustments and provisions, reserves for general banking risks and changes during the current year

|   | Previous<br>year end<br>CHF | Used in<br>conformity with<br>designated<br>purpose<br>CHF | Reclassifica-<br>tions<br>CHF | Currency<br>differences<br>CHF | Default,<br>interests,<br>sums<br>recovered<br>CHF | New creations<br>charged to<br>P & L<br>CHF | Release to<br>P & L<br>CHF | Balance<br>at current<br>year end<br>CHF |
|---|-----------------------------|--|-------------------------------|--------------------------------|--|---|----------------------------|--|
| Other provisions                              | 543'569                     | 0  | 0                             | 0                              | 0  | 174'284                                     | -303'569                   | 414'284                                  |
| <b>Total provisions</b>                       | <b>543'569</b>              | <b>0</b>   | <b>0</b>                      | <b>0</b>                       | <b>0</b>   | <b>174'284</b>                              | <b>-303'569</b>            | <b>414'284</b>                           |
| <b>Reserves for general<br/>banking risks</b> | <b>0</b>                    | <b>0</b>   | <b>0</b>                      | <b>0</b>                       | <b>0</b>   | <b>240'000</b>                              | <b>0</b>                   | <b>240'000</b>                           |

### 17 Presentation of the share capital

| 31 <sup>st</sup> December    |     | 2017                      |                     |   | 2016                      |                     |   |
|------------------------------|-----|---------------------------|---------------------|---|---------------------------|---------------------|---|
|                              |     | Total<br>par value<br>CHF | Number<br>of shares | Capital<br>eligible for<br>dividends<br>CHF | Total<br>par value<br>CHF | Number<br>of shares | Capital<br>eligible for<br>dividends<br>CHF |
| Ordinary bearer shares       | -A- | 25'500'000                | 25'500              | 25'500'000                                  | 25'500'000                | 25'500              | 25'500'000                                  |
| Preference nominative shares | -B- | 4'496'250                 | 10'900              | 4'496'250                                   | 4'496'250                 | 10'900              | 4'496'250                                   |
| Preference nominative shares | -C- | 1'950                     | 4                   | 1'950                                       | 1'950                     | 4                   | 1'950                                       |
| Preference nominative shares | -D- | 1'800                     | 4                   | 1'800                                       | 1'800                     | 4                   | 1'800                                       |
| <b>Total bank's capital</b>  |     | <b>30'000'000</b>         | <b>36'408</b>       | <b>30'000'000</b>                           | <b>30'000'000</b>         | <b>36'408</b>       | <b>30'000'000</b>                           |
| of which, paid up            |     | 30'000'000                | 36'408              | 30'000'000                                  | 30'000'000                | 36'408              | 30'000'000                                  |

### 18 Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation schemes

N/A

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 19 Disclosure of amounts due from / to related parties

| 31 <sup>st</sup> December                     | Amounts due from |             | Amounts due to |             |
|---|------------------|-------------|----------------|-------------|
|   | 2017<br>CHF      | 2016<br>CHF | 2017<br>CHF    | 2016<br>CHF |
| Holders of qualified participations           | 1'940'000        | 2'193'543   | 1'854'129      | 1'707'850   |
| Group companies                               | 0                | 0           | 0              | 0           |
| Linked companies                              | 0                | 0           | 0              | 0           |
| Transactions with members of governing bodies | 0                | 0           | 0              | 0           |
| Other related party                           | 0                | 0           | 0              | 0           |

Terms and conditions applied to transactions of the staff and members of the Bank's governing bodies are more favorable than to those applied to client's transactions. Terms and conditions to group companies are those applied to client's transactions.

### 20 Disclosure of holders of significant participations

| 31 <sup>st</sup> December   | 2017           |             | 2016           |             |
|---|----------------|-------------|----------------|-------------|
|   | Nominal<br>CHF | % of equity | Nominal<br>CHF | % of equity |
| Holders of significant participations and groups of holders of participations with pooled voting rights |                |             |                |             |
| With voting rights  |                |             |                |             |
| HBC Luxembourg Sàrl   | 15'745'000     | 60.85%      | 12'450'000     | 51.80%      |

As at 31<sup>st</sup> December 2017, HBC Luxembourg Sàrl belongs to HBS International Luxembourg SA (54.50%) and Sintesi S.p.A. (45.50%).

HBS International Luxembourg SA is owned by Mauro Scalfi (50.0002%) and Gianfranco Basta (49.9998%).

Sintesi S.p.A. belongs to the De Vido family.

### 21 Disclosure of own shares and composition of equity capital

N/A

### 22 Disclosure in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations and and Art. 663c para.3 CO for banks whose equity securities are listed

N/A

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 23 Presentation of the maturity structure of financial instruments

|  | At sight<br>CHF    | with<br>notice<br>CHF | Maturities                |                                 |                               |                        |                       | Total<br>CHF       |
|--|--------------------|-----------------------|---------------------------|---------------------------------|-------------------------------|------------------------|-----------------------|--------------------|
|  |                    |                       | within<br>3 months<br>CHF | within 3 to<br>12 months<br>CHF | within 1 to<br>5 years<br>CHF | over<br>5 years<br>CHF | no<br>maturity<br>CHF |                    |
| <b>Assets /<br/>financial instruments</b>                              |                    |                       |                           |                                 |                               |                        |                       |                    |
| Liquid assets  | 105'485'051        | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 105'485'051        |
| Amounts due<br>from banks  | 63'109'864         | 0                     | 19'438'699                | 1'000'000                       | 0                             | 0                      | 0                     | 83'548'563         |
| Amounts due<br>from customers  | 0                  | 54'094'685            | 84'828'044                | 0                               | 0                             | 0                      | 0                     | 138'922'729        |
| Mortgage loans   | 0                  | 0                     | 0                         | 0                               | 0                             | 11'727'650             | 0                     | 11'727'650         |
| Trading portfolio assets   | 1'473'016          | 0                     | 5'779'731                 | 7'945'077                       | 0                             | 0                      | 0                     | 15'197'824         |
| Positive replacement<br>values of derivatives<br>financial instruments | 2'616'273          | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 2'616'273          |
| Other financial<br>instruments<br>at fair value                        | 26'003'611         | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 26'003'611         |
| <b>31.12.2017</b>  | <b>198'687'815</b> | <b>54'094'685</b>     | <b>110'046'474</b>        | <b>8'945'077</b>                | <b>0</b>                      | <b>11'727'650</b>      | <b>0</b>              | <b>383'501'701</b> |
| 31.12.2016   | 158'296'953        | 31'754'689            | 147'449'607               | 5'713'838                       | 509'122                       | 6'309'280              | 0                     | 350'033'489        |
|  |                    |                       |                           |                                 |                               |                        |                       |                    |
| <b>Debt capital /<br/>financial instruments</b>                        |                    |                       |                           |                                 |                               |                        |                       |                    |
| Amounts due to bank  | 89'646'302         | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 89'646'302         |
| Amounts due in respect<br>of customer deposits                         | 212'521'728        | 0                     | 1'830'719                 | 0                               | 0                             | 0                      | 0                     | 214'352'447        |
| Negative replacement<br>values of derivative<br>financial instruments  | 2'828'448          | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 2'828'448          |
| Liabilities from other<br>financial instruments<br>at fair value       | 42'715'690         | 0                     | 0                         | 0                               | 0                             | 0                      | 0                     | 42'715'690         |
| <b>31.12.2017</b>  | <b>347'712'168</b> | <b>0</b>              | <b>1'830'719</b>          | <b>0</b>                        | <b>0</b>                      | <b>0</b>               | <b>0</b>              | <b>349'542'887</b> |
| 31.12.2016   | 316'085'829        | 0                     | 813'753                   | 0                               | 0                             | 0                      | 0                     | 316'899'582        |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 24 Presentation of assets and liabilities by domestic and foreign origin in accordance with the domicile principles

| 31 <sup>st</sup> December                                       | 2017                 |                     | 2016                 |                     |
|---|----------------------|---------------------|----------------------|---------------------|
|   | Domestic<br>CHF '000 | Foreign<br>CHF '000 | Domestic<br>CHF '000 | Foreign<br>CHF '000 |
| <b>Assets</b>   |                      |                     |                      |                     |
| Liquid assets   | 83'095               | 22'390              | 58'969               | 14'168              |
| Amounts due from banks  | 7'204                | 76'345              | 31'950               | 60'140              |
| Amounts due from customers                                      | 35'192               | 103'731             | 11'323               | 151'150             |
| Mortgage loans  | 11'728               | 0                   | 6'309                | 0                   |
| Trading portfolio assets  | 3'822                | 11'376              | 0                    | 6'310               |
| Positive replacement values of derivative financial instruments | 862                  | 1'754               | 3'869                | 4'238               |
| Other financial instruments at fair value                       | 26'004               | 0                   | 1'607                | 0                   |
| Accrued income and prepaid expenses                             | 1'610                | 0                   | 1'791                | 0                   |
| Participations  | 51                   | 0                   | 0                    | 14                  |
| Tangible fixed assets   | 1'652                | 0                   | 1'676                | 0                   |
| Intangible assets   | 0                    | 0                   | 133                  | 0                   |
| Other assets  | 389                  | 0                   | 353                  | 0                   |
| <b>Total assets</b>   | <b>171'607</b>       | <b>215'596</b>      | <b>117'981</b>       | <b>236'020</b>      |

| 31 <sup>st</sup> December                                       | 2017                 |                     | 2016                 |                     |
|---|----------------------|---------------------|----------------------|---------------------|
|   | Domestic<br>CHF '000 | Foreign<br>CHF '000 | Domestic<br>CHF '000 | Foreign<br>CHF '000 |
| <b>Liabilities</b>  |                      |                     |                      |                     |
| Amounts due to banks  | 1'567                | 88'079              | 1'130                | 48'305              |
| Amounts due in respect of customer deposit                      | 39'711               | 174'641             | 37'175               | 219'425             |
| Negative replacement values of derivative financial instruments | 1'468                | 1'360               | 3'630                | 4'433               |
| Other financial instruments at fair value                       | 39'625               | 3'091               | 2'090                | 712                 |
| Accrued expenses and deferred income                            | 3'604                | 0                   | 4'458                | 0                   |
| Other liabilities   | 370                  | 0                   | 289                  | 0                   |
| Provisions  | 414                  | 0                   | 544                  | 0                   |
| Reserves for general banking risks                              | 240                  | 0                   | 0                    | 0                   |
| Bank's capital  | 30'000               | 0                   | 30'000               | 0                   |
| Subordinated loan   | 0                    | 0                   | 0                    | 0                   |
| Statutory retained earnings reserves                            | 110                  | 0                   | 0                    | 0                   |
| Voluntary retained earnings reserves                            | 0                    | 0                   | 0                    | 0                   |
| Profit carried forward / loss carried forward                   | 650                  | 0                   | -226                 | 0                   |
| Profit / loss (result of the period)                            | 2'272                | 0                   | 2'036                | 0                   |
| <b>Total liabilities</b>  | <b>120'032</b>       | <b>267'171</b>      | <b>81'126</b>        | <b>272'875</b>      |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

| 31 <sup>st</sup> December | 2017                 |                | 2016                 |                |
|---------------------------|----------------------|----------------|----------------------|----------------|
|                           | Absolute<br>CHF '000 | Share as %     | Absolute<br>CHF '000 | Share as %     |
| <b>Assets</b>             |                      |                |                      |                |
| Switzerland               | 171'607              | 44.32%         | 117'981              | 33.33%         |
| Rest of Europe            | 119'815              | 30.94%         | 109'708              | 30.99%         |
| North America             | 19'476               | 5.03%          | 14'934               | 4.22%          |
| South America             | 72'127               | 18.63%         | 107'442              | 30.35%         |
| Others                    | 4'178                | 1.08%          | 3'936                | 1.11%          |
| <b>Total assets</b>       | <b>387'203</b>       | <b>100.00%</b> | <b>354'001</b>       | <b>100.00%</b> |

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

| Rating class                             | Net foreign exposure |                | Net foreign exposure |                |
|--|----------------------|----------------|----------------------|----------------|
|  | CHF '000             | %              | CHF '000             | %              |
| <i>S &amp; P (Standard &amp; Poor's)</i> |                      |                |                      |                |
| 1 AAA , AA-                              | 271'117              | 70.02%         | 204'833              | 57.86%         |
| 2 A+, A-                                 | 190                  | 0.05%          | 244                  | 0.07%          |
| 3 BBB+, BBB-                             | 52'105               | 13.46%         | 56'203               | 15.88%         |
| 4 BB+, BB-                               | 21'742               | 5.62%          | 110                  | 0.03%          |
| 5 B+, B-                                 | 5                    | 0.00%          | 16                   | 0.00%          |
| 6 CCC+, C                                | 25'686               | 6.63%          | 53'043               | 14.98%         |
| Without rating                           | 16'358               | 4.22%          | 39'552               | 11.17%         |
| <b>Total</b>                             | <b>387'203</b>       | <b>100.00%</b> | <b>354'001</b>       | <b>100.00%</b> |



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 27 Presentation of assets and liabilities split on the basis of the most significant currencies for the bank

| 31 <sup>st</sup> December   | 2017           |                |                |               |                |
|---|----------------|----------------|----------------|---------------|----------------|
| in CHF '000   | CHF            | EUR            | USD            | Altri         | Total          |
| <b>Assets</b>   |                |                |                |               |                |
| Liquid assets   | 74'683         | 30'647         | 127            | 28            | 105'485        |
| Amounts due from banks  | 12'887         | 10'503         | 49'507         | 10'652        | 83'549         |
| Amounts due from customers  | 11'556         | 70'919         | 48'284         | 8'164         | 138'923        |
| Mortgage loans  | 11'728         | 0              | 0              | 0             | 11'728         |
| Trading portfolio assets  | 0              | 3'504          | 11'694         | 0             | 15'198         |
| Positive replacement values of derivative financial instruments                 | 51             | 803            | 1'453          | 309           | 2'616          |
| Other financial instruments at fair value                                       | 7'951          | 7'907          | 9'144          | 1'002         | 26'004         |
| Accrued income and prepaid expenses   | 1'434          | 8              | 158            | 10            | 1'610          |
| Participations  | 51             | 0              | 0              | 0             | 51             |
| Tangible fixed assets   | 1'652          | 0              | 0              | 0             | 1'652          |
| Other assets  | 389            | 0              | 0              | 0             | 389            |
| Total assets shown in the balance sheet   | 122'382        | 124'291        | 120'367        | 20'165        | 387'203        |
| Delivery entitlements from spot exchange, forward forex and option transactions | 15'365         | 192'458        | 197'704        | 28'959        | 434'486        |
| <b>Total assets</b>   | <b>137'747</b> | <b>316'749</b> | <b>318'071</b> | <b>49'124</b> | <b>821'689</b> |

| 31 <sup>st</sup> December   | 2017           |                |                |               |                |
|---|----------------|----------------|----------------|---------------|----------------|
| in CHF '000   | CHF            | EUR            | USD            | Altri         | Totale         |
| <b>Liabilities</b>  |                |                |                |               |                |
| Amounts due to banks  | 2'086          | 27'391         | 41'607         | 18'562        | 89'646         |
| Amounts due in respect of customer deposits   | 21'226         | 109'953        | 75'389         | 7'784         | 214'352        |
| Negative replacement values of derivative financial instruments                       | 558            | 587            | 1'372          | 311           | 2'828          |
| Other financial instruments at fair value   | 11'491         | 16'464         | 13'733         | 1'028         | 42'716         |
| Accrued expenses and deferred income  | 3'604          | 0              | 0              | 0             | 3'604          |
| Other liabilities   | 319            | 22             | 1              | 28            | 370            |
| Provisions  | 414            | 0              | 0              | 0             | 414            |
| Reserves for general banking risks  | 240            | 0              |                | 0             | 240            |
| Bank's capital  | 30'000         | 0              | 0              | 0             | 30'000         |
| Statutory retained earnings reserves  | 110            | 0              |                | 0             | 110            |
| Profit carried forward / loss carried forward   | 650            | 0              | 0              | 0             | 650            |
| Profit / loss (result of the period)  | 2'272          | 0              | 0              | 0             | 2'272          |
| <b>Total liabilities shown in the balance sheet</b>                                   | <b>72'970</b>  | <b>154'417</b> | <b>132'102</b> | <b>27'713</b> | <b>387'203</b> |
| Delivery obligations from spot exchange, forward forex and forex options transactions | 66'672         | 162'105        | 185'719        | 21'424        | 435'920        |
| <b>Total liabilities</b>  | <b>139'642</b> | <b>316'522</b> | <b>317'821</b> | <b>49'137</b> | <b>823'123</b> |
| <b>Net position per currency</b>  | <b>-1'895</b>  | <b>227</b>     | <b>250</b>     | <b>-13</b>    | <b>-1'434</b>  |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 28 Breakdown and explanation of contingent liabilities and assets

| 31 <sup>st</sup> December                                 | 2017<br>CHF    | 2016<br>CHF    |
|---|----------------|----------------|
| Guarantees to secure credits and similar                  | 384'430        | 754'823        |
| Other contingent liabilities                              | 39'878         | 39'878         |
| <b>Total contingent liabilities</b>                       | <b>424'308</b> | <b>794'701</b> |
| Contingent assets arising from tax losses carried forward | 0              | 0              |
| Other contingent assets                                   | 0              | 0              |
| <b>Total contingent assets</b>                            | <b>0</b>       | <b>0</b>       |

### 29 Breakdown of credit commitments

|     |
|-----|
| N/A |
|-----|

### 30 Breakdown of fiduciary transactions

| 31 <sup>st</sup> December                        | 2017<br>CHF       | 2016<br>CHF       |
|--|-------------------|-------------------|
| Fiduciary investments with third-party companies | 48'424'065        | 46'673'416        |
| <b>Total</b>                                     | <b>48'424'065</b> | <b>46'673'416</b> |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 31 Breakdown of managed assets and presentation of their development

| 31 <sup>st</sup> December   | 2017<br>CHF        | 2016<br>CHF        |
|---|--------------------|--------------------|
| a) Breakdown of managed assets  |                    |                    |
| Type of managed assets:   |                    |                    |
| - Assets in collective investment schemes managed by the Bank                 | 179'038'464        | 164'420'983        |
| - Assets under discretionary asset management agreements                      | 204'926'593        | 207'705'609        |
| - Other managed assets  | 30'339'965         | 28'893'774         |
| <b>Total managed assets (included double counting)</b>                        | <b>414'305'022</b> | <b>401'020'366</b> |
| of which, double counting   | 34'476'885         | 20'883'682         |
| b) Presentation of the development of managed assets                          |                    |                    |
| Total managed assets (including double counting) at beginning of the year     | 401'020'366        | 252'007'310        |
| +/- net new money inflow or net new money outflow                             | -14'233'720        | 13'348'848         |
| +/- price gains / losses, interest, dividends and currency gains / losses     | 27'518'376         | -75'219'023        |
| +/- other effects *   | 0                  | 210'883'231        |
| <b>Total managed assets (included double counting) at the end of the year</b> | <b>414'305'022</b> | <b>401'020'366</b> |
| of which, double counting   | 34'476'885         | 20'883'682         |

\* Inflows from the acquisition of assets and investment funds (former Bank Leodan Zurich)

|  |                      |                      |
|--|----------------------|----------------------|
| <b>Total other assets</b>  | <b>2'070'350'589</b> | <b>1'460'537'543</b> |
| of which, double counting  | 34'476'885           | 20'883'682           |
| Presentation of the development of other assets                                |                      |                      |
| <b>Total other assets (including double counting) at beginning of the year</b> | <b>1'460'537'543</b> | <b>1'112'289'445</b> |
| +/- net new money inflow or net new money outflow                              | 552'282'451          | 144'508'522          |
| +/- price gains / losses, interest, dividends and currency gains / losses      | 57'530'595           | 123'903'487          |
| +/- other effects *  | 0                    | 79'836'089           |
| <b>Total other assets (including double counting) at the end of the year</b>   | <b>2'070'350'589</b> | <b>1'460'537'543</b> |
| of which, double counting  | 0                    | 0                    |

\* Inflows from the acquisition of assets and investment funds (former Banca Leodan Zurigo)

|   |                      |                      |
|---|----------------------|----------------------|
| <b>Total managed assets and other assets (included double counting)</b> | <b>2'484'655'611</b> | <b>1'861'557'909</b> |
|---|----------------------|----------------------|

Lombard loans have not been deducted from managed assets.

Net inflow / (outflow) from clients is calculated without including any accrued interests, charged commissions and expenses.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 32 Breakdown of the result from trading activities and the fair value option

|   | 2017<br>CHF      | 2016<br>CHF      |
|---|------------------|------------------|
| a) Breakdown by business area   |                  |                  |
| Private   | 3'492'842        | 3'750'907        |
| <b>Total</b>  | <b>3'492'842</b> | <b>3'750'907</b> |
| b) Breakdown by underlying risk and based on the use of the fair value option |                  |                  |
| Result from trading activities from:  |                  |                  |
| - Interest rate instruments (including funds)                                 | 1'023'180        | 726'187          |
| - Equity securities (including funds)   | 0                | 0                |
| - Foreign currencies  | 2'469'662        | 3'024'720        |
| - Commodities / precious metals   | 0                | 0                |
| <b>Total result from trading activities from:</b>                             | <b>3'492'842</b> | <b>3'750'907</b> |
| <b>of which, from fair value option</b>                                       | <b>0</b>         | <b>0</b>         |
| - of which, from fair value option on assets                                  | 0                | 0                |
| - of which, from fair value option on liabilities                             | 0                | 0                |

### 33 Disclosure of material refinancing income in the item Interest and discount income as well as material negative interest

In accordance with Annex 3 mn A3-10 and mn A3-19 of FINMA Circular 2015/1, the payment of negative interests on lending operations are recorded in deduction of interest income (2017: CHF 319'123; 2016: CHF 335'787) and interest income arising from borrowings are recorded in deduction of interest expenses (2017: CHF 56'922; 2016: CHF 106'631).

### 34 Breakdown of personnel expenses

|  | 2017<br>CHF      | 2016<br>CHF      |
|--|------------------|------------------|
| Salaries                                   | 7'341'022        | 7'258'871        |
| - of which, forms of variable compensation | 788'000          | 1'036'127        |
| Social insurance benefits                  | 1'338'192        | 1'263'733        |
| Other personnel expenses                   | 180'852          | 172'017          |
| <b>Totale</b>                              | <b>8'860'066</b> | <b>8'694'621</b> |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 35 Breakdown of general and administrative expenses

|   | 2017<br>CHF      | 2016<br>CHF      |
|---|------------------|------------------|
| Office space expenses   | 832'928          | 1'036'623        |
| Expenses for information and communication technology   | 1'184'817        | 1'046'264        |
| Expenses for vehicles, equipment, furniture and other fixtures, ss well as operating lease expenses | 29'161           | 36'243           |
| Fees of audit firm  | 345'000          | 344'000          |
| - of which, for financial and regulatory audits   | 345'000          | 344'000          |
| - of which, for other services  | 0                | 0                |
| Other operating expenses  | 1'126'125        | 1'108'508        |
| <b>Total</b>  | <b>3'518'031</b> | <b>3'571'638</b> |

### 36 Explanations regarding material losses, extraordinary income and expenses, as well as material releases of hidden reserves, reserves for banking risks, and value adjustments and provisions no longer required

|  | 2017<br>CHF   | 2016<br>CHF   |
|--|---------------|---------------|
| Extraordinary income                                     |               |               |
| Profit realized on the disposal of tangible fixed assets | 39'351        | 15'741        |
| <b>Total</b>   | <b>39'351</b> | <b>15'741</b> |

### 37 Disclosure of and reasons for revaluations of participations and tangible fixed assets up to the acquisitions cost

|     |
|-----|
| N/A |
|-----|

### 38 Presentation of the operating result divided between domestic and foreign origin, according to the principle of permanent establishment

|     |
|-----|
| N/A |
|-----|

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS AS AT DECEMBER 31<sup>ST</sup> 2017

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 39 Presentation of current taxes, deferred taxes, and disclosure of tax rate

|                           | 2017<br>CHF    | 2016<br>CHF    |
|---------------------------|----------------|----------------|
| Current tax expenses      | 677'928        | 727'372        |
| <b>Total</b>              | <b>677'928</b> | <b>727'372</b> |
| Weighted average tax rate | 21.99%         | 21.75%         |

### 40 Disclosures and explanations of the earnings for each right of participation in the case of listed banks

N/A



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Report of the Statutory Auditor to the General Meeting of Shareholders of

## **BANCA CREDINVEST SA, Lugano**

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### **Report of the Statutory Auditor on the Financial Statements**

As statutory auditor, we have audited the financial statements of BANCA CREDINVEST SA, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 7 – 37) for the year ended 31 December 2017.

#### *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 2017 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.

KPMG SA



Pietro Di Fluri  
*Licensed Audit Expert  
Auditor in Charge*



Rahel Nicastro  
*Licensed Audit Expert*

Lugano, 21 March 2018



# CORPORATE GOVERNANCE

## **Board of Directors**

### Raffaele Rossetti

Born in 1967, Swiss citizen, he is a Board member since 2010 and Chairman since 2014. He received his law degree from the University of Zurich. He has a wide and consolidated experience in advising on finance and banking law, banks, insurance companies, stock exchanges, securities dealers and collective investment schemes.

### Joseph Louis Toson

Born in 1950, French citizen, he is Vice-Chairman of the Board since 2014. He holds a Diploma of Maitrise de Mathematiques from the University of Paris and a Post graduate diploma in banking studies. His former professional career has given him a wide experience in the private banking sector.

### Alberto Banfi

Born in 1958, Italian citizen, he is a Board member since 2007 and is currently member of the Audit Committee. He graduated in Scienze Economiche e Bancarie at Università Cattolica in Milan and is currently ordinary Professor at the Faculty of Scienze Bancarie Finanziarie e Assicurative in the same university.

### Viktor Dario

Born in 1948, Swiss citizen, is a Board member since 2016. He graduated in economics at the University of Zurich. He has held roles of responsibility in banks and asset managers.

### Antonio Sergi

Born in 1957, Swiss citizen, he is a Board member since 2008 and is also member of the Audit Committee. He holds a Diploma Federale in Economia Bancaria and has a large professional experience in the banking field.

# CORPORATE GOVERNANCE

## **Executive Management**

Mauro Scalfi

Born in 1958, Italian citizen, is Chief Executive Officer since 2007. He graduated in Discipline Economiche e Sociali at Bocconi University in Milan and has held roles of responsibility in banks, asset managers, financial intermediaries and SICAV. He has gained professional experiences in London, Italy and subsequently in Switzerland, since 2003. He is a Board Member of Alpe Adria Gestioni SIM SpA.

Gianfranco Basta (until December 2017)

Born in 1944, Swiss citizen, has been Deputy Chief Executive Officer since 2007. Graduated in law, gained experiences in Italy and in Switzerland in the insurance and banking areas. He represents the Employer in the pension scheme committee of the Bank.

Massimo Bertini-Morini (from May 2017)

Born in 1965, Swiss citizen, is Vice President Executive Officer since 2017. Holding a Diploma in Commerce, he has held roles of responsibility in financial institutions, especially in information technology, operational processes and administrative services. Started in Banca Credinvest in 2007 as Chief Information Technology, he has been appointed Director in 2008 in charge of all activities of the Operational Division of which he took responsibility in 2017.

Donatella Favalli (from November 2017)

Born in 1971, Italian citizen, she has been Vice President Executive Officer since 2017. Graduated in Law at the University of Turin, she was admitted to the bar and started working in an international law firm. Subsequently she worked as corporate lawyer in an Italian multinational corporation. Since 2006 she has been active in Switzerland at a leading banking group, working first in the legal department and subsequently as head of the Legal & Compliance unit.



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