Annual Report 2017

Bank J. Safra Sarasin Ltd

J. SAFRA SARASIN

Sustainable Swiss Private Banking since 1841

Consolidated Financial Statements

Consolidated balance sheet

Assets	31.12.2017 CHF 000	31.12.2016 CHF 000
Liquid assets	5,698,273	4,957,859
Amounts due from banks	3,429,512	3,792,963
Amounts due from securities financing transactions	184,415	283,030
Amounts due from customers	7,504,263	6,178,577
Mortgage loans	1,446,364	1,519,942
Trading portfolio assets	792,291	634,090
Positive replacement values of derivative financial instruments	770,855	745,061
Other financial instruments at fair value	957,486	793,554
Financial investments	2,929,535	2,487,364
Accrued income and prepaid expenses	121,190	100,372
Non-consolidated participations	20,212	20,212
Tangible fixed assets	282,879	215,611
Intangible assets	13,604	19,413
Other assets	51,314	69,357
Total assets	**24,202,193**	**21,817,405**
Total subordinated claims	132,463	8,327
of which subject to mandatory conversion and/or debt waiver	–	–

Liabilities		
Amounts due to banks	4,346,837	1,810,124
Liabilities from securities financing transactions	151,609	0
Amounts due in respect of customer deposits	14,796,040	16,028,546
Negative replacement values of derivative financial instruments	770,666	647,683
Liabilities from other financial instruments at fair value	1,071,686	590,071
Bond issues and central mortgage institution loans	453,372	300,957
Accrued expenses and deferred income	216,581	203,536
Other liabilities	80,327	114,162
Provisions	43,658	13,829
Reserves for general banking risks	22,000	36,000
Share capital	22,015	22,015
Capital reserve	844,797	844,797
Retained earnings reserve	1,197,894	1,089,129
Currency translation reserve	–29,666	–34,176
Minority interests in equity	32,331	30,583
Consolidated profit	182,046	120,149
of which minority interests in consolidated profit	13,105	11,424
Total liabilities	**24,202,193**	**21,817,405**
Total subordinated liabilities	3,600	3,600
of which subject to mandatory conversion and/or debt waiver	–	–

Consolidated off-balance sheet

CHF 000	**31.12.2017**	**31.12.2016**
Contingent liabilities	767,614	566,906
Irrevocable commitments	17,919	53,266
Obligations to pay up shares and make further contributions	1,487	1,487
Credit commitments	0	0

Consolidated income statement

CHF 000	2017	2016
Interest and discount income	226,677	181,124
Interest and dividend income from trading portfolios	0	0
Interest and dividend income from financial investments	45,034	45,837
Interest expense	–80,903	–52,354
Gross result from interest operations	190,808	174,607
Changes in value adjustments for default risks and losses from interest operations	–16,183	–4,217
Subtotal net result from interest operations	174,625	170,390
Commission income from securities trading and investment activities	480,962	447,235
Commission income from lending activities	3,279	3,300
Commission income from other services	45,761	40,943
Commission expense	–65,337	–63,421
Subtotal result from commission business and services	464,665	428,057
Result from trading activities and the fair value option	142,233	117,771
Result from the disposal of financial investments	2,808	2,015
Income from participations	3,755	2,998
of which, participations recognised using the equity method	0	0
of which, from other non-consolidated participations	3,755	2,998
Result from real estate	602	407
Other ordinary income	11,517	2,858
Other ordinary expenses	–134	–502
Subtotal other result from ordinary activities	18,548	7,776
Operating income	**800,071**	**723,994**
Personnel expenses	–427,885	–428,677
General and administrative expenses	–126,843	–124,483
Subtotal operating expenses	**–554,728**	**–553,160**
Depreciation and amortisation of tangible fixed assets and intangible assets and value adjustments on participations	–25,901	–27,186
Changes to provisions and other value adjustments, and losses	–31,699	502
Operating result	**187,743**	**144,150**
Extraordinary income	232	4
Extraordinary expenses	–25	–2
Changes in reserves for general banking risks	14,000	0
Taxes	–19,904	–24,003
Consolidated profit	**182,046**	**120,149**
of which minority interests in consolidated profit	13,105	11,424

Consolidated cash flow statement

	31.12.2017		31.12.2016	
CHF 000	**Source of funds**	**Use of funds**	Source of funds	Use of funds
Consolidated profit	182,046	0	120,149	0
Change in reserves for general banking risks	0	–14,000	0	0
Value adjustments on participations, depreciation and amortisation of tangible fixed assets and intangible assets	25,901	0	27,186	0
Provisions and other value adjustments	29,782	0	8,678	0
Change in value adjustments for default risks and losses	41,937	0	28,993	0
Accrued income and prepaid expenses	0	–19,267	3,334	0
Accrued expenses and deferred income	10,768	0	503	0
Other items	0	0	0	0
Previous year's dividend	0	0	0	0
Cash flow from operating activities	**257,167**		**188,843**	
Share capital	0	0	0	0
Capital reserves	0	0	0	0
Retained earnings reserve	0	0	0	0
Minority interests in equity	0	–10,847	0	–12,348
Cash flow from equity transactions		**–10,847**		**–12,348**
Participating interests	0	0	0	–59,747
Bank building	0	–80,598	0	0
Other fixed assets	0	–6,718	0	–9,465
Intangible assets	0	0	0	–530
Cash flow from transactions in respect of participations, tangible fixed assets and intangible assets		**–87,316**		**–69,742**

CHF 000	Source of funds	Use of funds	Source of funds	Use of funds
Medium and long-term business (>1 year):				
Amounts due to banks	0	–75,699	0	–117,632
Amounts due in respect of customer deposits	7,181	0	0	–7,772
Liabilities from other financial instruments at fair value	747,431	0	0	–129,061
Bonds	0	0	0	0
Central mortgage institution loans	205,256	0	106	0
Loans of central issuing institutions	0	–52,841	0	–25,012
Other liabilities	0	–34,345	23,471	0
Amounts due from banks	0	–175,483	0	–286
Amounts due from customers	0	–342,638	98,827	0
Mortgage loans	75,088	0	21,141	0
Other financial instruments at fair value	0	–131,754	1,123	0
Financial investments	0	–394,118	658,195	0
Other accounts receivable	78,761	0	0	–96,222
Short-term business:				
Amounts due to banks	2,606,148	0	0	–291,961
Liabilities from securities financing transactions	151,609	0	0	–20,020
Amounts due in respect of customer deposits	0	–1,215,520	389,265	0
Trading portfolio liabilities	0	0	0	0
Negative replacement values of derivative financial instruments	125,417	0	172,371	0
Liabilities from other financial instruments at fair value	0	–270,634	55,541	0
Amounts due from banks	625,141	0	0	–515,216
Amounts due from securities financing transactions	98,192	0	191,072	0
Amounts due from customers	0	–1,122,942	137,246	0
Trading portfolio assets	0	–161,949	0	–98,326
Positive replacement values of derivative financial instruments	0	–29,034	0	–236,890
Other financial instruments at fair value	0	–27,553	0	–115,733
Financial investments	0	–105,507	63,523	0
Cash flow from banking operations	**580,207**		**157,750**	
Conversion differences	**1,203**	**–2,877**	**0**	**–2,877**
Change in liquid assets	**740,414**	**0**	**261,626**	**0**

CHF 000	31.12.2017	31.12.2016
Liquid assets at beginning of the year (cash)	**4,957,859**	**4,696,233**
Liquid assets at the end of the year (cash)	**5,698,273**	**4,957,859**
Change in liquid assets	**740,414**	**261,626**

Presentation of the consolidated statement of changes in equity

CHF 000	Share capital	Capital reserve	Retained earnings reserve	Reserves for general banking risks	Currency translation reserve	Minority interests	Result of the period	**Total**
Equity on 01.01.2017	**22,015**	**844,797**	**1,197,854**	**36,000**	**–34,176**	**42,007**		**2,108,497**
Currency translation differences			40		4,510	1,208		5,758
Dividends and other distributions						–10,884		–10,884
Reserves for general banking risks				–14,000				–14,000
Consolidated profit						13,105	168,941	182,046
Equity on 31.12.2017	**22,015**	**844,797**	**1,197,894**	**22,000**	**–29,666**	**45,436**	**168,941**	**2,271,417**

Consolidated notes

Name, legal form and domicile
The J. Safra Sarasin Holding Ltd (the "Group") is a global banking group in private banking services and asset management. As an international group committed to sustainability and well established in Europe, Asia, the Middle East and Latin America, the Group is a global symbol of private banking tradition, emphasising security and well-managed conservative growth for clients.

Bank J. Safra Sarasin Ltd is headquartered in Basel.

Accounting and valuation principles
The Group's financial statements are presented in accordance with Swiss accounting principles applicable for Banks (Swiss Financial Market Supervisory Authority FINMA Circular 2015/1), the Swiss Banking Act and the Swiss Code of Obligations. Capital adequacy disclosures under FINMA Circulars 08/22 and 16/1 are published on our website www.jsafrasarasin.com.

Changes in accounting and valuation principles
Accounting and valuation principles remained unchanged. Selectively, changes to the method of presentation were made to improve the level of information provided. Consequences are explained in the notes where meaningful. Comparative information has been reported accordingly.

Consolidation principles
The consolidated financial statements are prepared in accordance with the True and Fair View principle. The consolidation period for all Group entities is the calendar year ending 31 December. The accounting and valuation principles of the entities have been adjusted, where materially different, to the Group's consolidation principles.

Consolidation perimeter
The consolidated financial statements comprise those of Bank J. Safra Sarasin Ltd, Basel, as well as those of its subsidiaries and branches listed on page 24. Newly acquired subsidiaries are consolidated as from the time control is transferred and deconsolidated once control is relinquished.

Consolidation method
Participating interests of more than 50% are wholly consolidated using the purchase method if the Group has the control, i.e. if the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Assets and liabilities, as well as costs and revenues, are stated in full (100%). Minority shareholders' interests in the net assets and net profit are stated separately in the balance sheet and the consolidated income statement. Participating interests between 20% and 50% are consolidated according to the equity method. The net profit and assets corresponding to such holdings are reflected in the consolidated accounts according to the percentage owned by the Group. Minor participating interests and those of less than 20% are stated as unconsolidated participations at their acquisition cost, after deduction of provisions for any necessary depreciation in value. When acquiring a participation, the difference between the book value of the acquired participation and its net asset value is allocated to goodwill.

Elimination of intra-Group receivables and payables
All items stated in the balance sheet and income statement (including off-balance sheet transactions) resulting from business relationships between Group companies are eliminated from the consolidated accounts.

Recording of transactions
All transactions concluded are recorded according to the settlement date accounting principle. Foreign exchange spot transactions and security transactions concluded but not yet executed are recorded as derivative financial instruments in the balance sheet positions "Positive or negative replacement values of

derivative financial instruments". The corresponding assets and liabilities are recorded as contract volume in the off-balance sheet. Firm commitments to underwrite securities issues and money market time deposits are recognised at the settlement date.

Translation of foreign currencies
Income and expenses in foreign currencies arising during the year are translated at the exchange rates prevailing at the date of the transaction. Exchange differences are recorded in the statement of income. Assets and liabilities expressed in foreign currencies are converted at the daily rate of the balance sheet date. The income statements of Group entities are translated at the yearly average rate. Main exchange rates ruling at the balance sheet dates are as follows:

Currency	31.12.2017	31.12.2016
USD/CHF	0.975	1.016
EUR/CHF	1.170	1.072

Outright forward exchange contracts are translated at the residual exchange rate ruling at the balance sheet date. Profits and losses on these exchange positions are included in the foreign exchange results at the balance sheet date.

Consolidated supervision
The Group qualifies as a financial group within the meaning of Article 3c al. 1 of the Swiss Banking Act, over which FINMA exercises consolidated supervision. The scope of consolidated supervision applies to all direct and indirect subsidiaries, branches, and representative offices of the Group.

The Group has delegated to the Bank's governing bodies all duties, responsibilities and competences related to the management and operations of its current business. This management includes the financial consolidation as well as the supervision, on a consolidated basis, of the activities of the Group.

Statutory individual financial statements of Bank J. Safra Sarasin Ltd are available upon request.

Cash, due from and to banks and clients
These items are stated at their nominal value. Known and foreseeable risks are reflected in individual value adjustments, which are stated directly under the corresponding headings of the balance sheet.

Amounts due from and liabilities from securities financing transactions
These items contain receivables and obligations from cash collateral delivered in connection with securities borrowing and lending transactions as well as from reverse repurchase and repurchase transactions. These items are stated at their nominal value. The transfer of securities in connection with a securities financing transaction does not require recognition of the secur-ities in the balance sheet when the ceding party retains the economic power to dispose of the rights to the transferred securities.

Securities and precious metals trading portfolios
Trading balances are valued at market price on the balance sheet date. Realised and unrealised profits and losses are included in the item "Result from trading activities and the fair value option". Securities that are not traded regularly are stated at their acquisition cost, after deduction of the necessary depreciation. Interest and dividend income from trading balances are credited to "Result from trading activities". The Group offsets the interest and dividend income on trading portfolios with the cost of funding from these portfolios. Income from securities issuing operations (primary market trading activities of structured products) is recorded in the item "result from trading activities and the fair value option".

Positive and negative replacement values of derivative financial instruments
Derivative instruments include options, futures and swaps on equities, stock indices, foreign exchange, commodities and interest rates, forward rate agreements, and forward contracts on currencies, securities and commodities. Derivative instruments are marked-to-market. For trading balances, realised and unrealised profits and losses are stated under the result from trading activities. Hedging transactions are recorded according to the rules applicable to the underlying position. If the underlying position is not marked-to-market then the market value change of the hedge instrument is recorded in the compensation account in other assets or liabilities. In the case of advance sale of an interest rate hedging instrument valued on the principle of accrued interest, the realised profit or loss is deferred and reported in the income statement over the initial duration of the instrument. If the impact of the hedging transactions is greater than that of the hedged positions, the surplus fraction is treated as a trading transaction.

Other financial instruments at fair value

The items “other financial instruments at fair value” and “liabilities from other financial instruments at fair value” contain self-issued structured products without inherent derivatives. Certificates issued are recorded in the balance sheet position “liabilities from other financial instruments at fair value” at marked-to-market. The assets held for hedging purpose of the certificates (e.g. stocks, bonds, etc.) are recorded in the balance sheet position “other financial instruments at fair value” at marked-to-market. If the hedging is effected with derivative financial instruments, the replacement values are recorded in the balance sheet positions “positive or negative replacement values of derivative financial instruments”.

Financial investments

Financial investments, intended to be held until maturity date, are stated at acquisition cost, less amortisation of any difference to nominal value over the period until maturity date (accrual method). Financial investments which are not intended to be held until maturity date, shares and similar securities and rights are stated at the lower of cost or market value. An impairment test is performed on a regular basis to determine any potential depreciation in the credit quality of the issuer.

Fixed assets and intangible assets

Fixed assets and intangible assets are stated at their acquisition cost. Depreciation is computed using the straight-line method over the estimated useful life of the respective assets net of impairment considered necessary as follows:

	2017	2016
Fixed assets		
Bank premises & other buildings	50 years	50 years
Leasehold improvements/ Renovations	10–20 years	10–20 years
Furniture and machines	3–10 years	3–10 years
Hardware	3–8 years	3–8 years
Software	3–8 years	3–8 years
Intangible assets		
Goodwill	5–20 years	5–20 years
Other intangible assets	3–10 years	3–10 years

If, when acquiring a business, the costs of acquisition are higher than the net assets acquired, the difference represents the acquired goodwill. The goodwill is capitalised in the balance sheet and amortised linearly over the estimated useful life. Other intangible assets consist of acquired clientele.

Impairment of non-financial assets

On the balance sheet date, the Group determines whether there are any reasons for an impairment of non-financial assets. Goodwill and other intangible assets with indeterminate useful life are checked for impairment at least once a year, and also whenever events suggest their value is too high. Any other non-financial assets are reviewed for impairment if there are signs that their book value exceeds the realisable amount of the fair value. The estimated fair value of non-financial assets is determined on the basis of three valuation methods:

i. Comparable Transactions;
ii. Market Comparable; and
iii. Model of discounting of cash flows.

Value adjustments and provisions

For all potential and identifiable risks existing at the balance sheet date, value adjustments and provisions are established on a prudent basis. Value adjustments for due from banks, due from customers, mortgages and bonds intended to be held until maturity date are deducted from the corresponding asset in the balance sheet.

Reserves for general banking risks

Reserves for general banking risks can be accounted for at consolidated financial statements level only or at individual accounts level to cover risks inherent to the banking business. These reserves form part of equity and are subject to deferred tax. Reserves for general banking risks at individual account level have not been subject to tax.

Employee pension plans

The Group operates a number of pension plans for its employees in Switzerland and abroad, most of them comprising defined contribution plans. The adjusted contributions for the period are shown as personnel costs in the income statement. The corresponding adjustments or liabilities and the claims and commitments arising from legal, regulatory or contractual requirements are shown in the balance sheet. In accordance with the Swiss GAAP RPC 16, a study is performed on an annual basis to assess a potential financial benefit/commitment (surplus/deficit) from the Group's point of view. A surplus is recorded only if the Group is legally permitted to use this surplus either to reduce or reimburse the employer contributions. In the case of deficit, a provision is set up if the Group has decided to or is required to participate in the financing. When the surplus and/or deficit is recorded in the income statement, it is recognised under personnel costs. In the balance sheet, the surplus is recognised under other assets, whereas a deficit is recognised under provisions.

Taxes

Current taxes, in general income and capital taxes, are calculated on the basis of the applicable tax laws and recorded as an expense in the relevant period. One-off taxes or taxes on transactions are not included in current taxes. Deferred taxes are recorded in accordance with requirements. Accruals of current taxes due are booked on the liabilities side under accrued expenses and deferred income. The tax effects arising from temporary differences between the carrying value and tax value of assets and liabilities are recorded as deferred taxes under provisions in the liabilities section of the balance sheet or in other assets for deferred tax assets. Deferred taxes are calculated using the expected tax rates.

Risk management

Structure of risk management

General considerations

Achieving a high standard of risk management is not simply a question of compliance with formalised internal and external rules. Moreover, quantitative criteria are only one component of comprehensive risk management systems. Indeed, risk awareness must be a key governance element to spur the appropriate risk culture and become an integral part of an organisation. Only then will such risk culture demonstrate itself through the discipline and thoroughness with which employees perform their tasks.

Governance

The Board of Directors carries ultimate responsibility in the Group's business strategy and principles for the corporate culture. It is responsible for establishing the business organisation, for issuing the necessary rules and regulations, and ensuring that the Group has the adequate level of personnel and infrastructure.

The Board defines the risk strategy, approves the Group-wide risk management framework, and is responsible for establishing an effective risk management function and for managing the Group's overall risks. It ensures that the risk and control environment is adequate and that the internal control system is efficient.

The Board of Directors formulates the Group's risk policy and monitors its implementation by the Group Executive Board, which is responsible for running the operational business activities and for the day-to-day risk management.

Risk management framework

The risk management framework is developed by the Group Executive Board and approved by the Board of Directors. It is based on a comprehensive assessment of the inherent risks resulting from the activities of the Group. For each of these activities, the existing controls of first, second and third level of defence are assessed and revised if necessary. These controls, together with other mitigating factors, will serve to derive the residual risks which in turn are classified in the corresponding principal risk categories.

Risk tolerance, defined as the level of risk that the Group is prepared to assume to achieve its business objectives, is determined by risk category. Corresponding limits are set where applicable.

Under the responsibility of the Board of Directors, the Group Executive Board ensures that the necessary instruments and organisational structures allow for the identification, monitoring and reporting of all risk categories.

The elements of risk tolerance are integrated in internal regulations, directives and policies which govern the activities performed within the Group and contribute to enforcing the risk culture. Those policies and related documents define the operating limits and describe the procedures to follow in case of breaches. A programme of training and e-learning is also designed to educate and inform personnel on risks and restrictions related to the activities.

The risk management framework is reviewed annually.

Committees

To ensure holistic risk management, the Board of Directors and the Group Executive Board have appointed the necessary committees to deal with risks and which act as decision-making bodies for key issues and risks. Their roles also include the promotion of risk awareness and compliance with the approved risk standards.

The **Audit and Risk Committee (“ARC”)** reports to the Board of Directors. The committee assesses the effectiveness of the Internal Control System, the risk control, the compliance function and internal audit. It monitors the implementation of risk strategies and ensures that they are in line with the defined risk tolerance and risk limits. In addition, the ARC assesses the risk management framework and makes relevant recommendations to the Board of Directors.

The **Risk Committee** is the Group’s highest management committee concerned with risk. Its primary function is to assist the Group Executive Board and ultimately the Board of Directors in fulfilling their responsibilities by implementing the risk guidelines set by the Board and reassessing the Group’s risk profile. When evaluating risk, the Risk Committee takes into consideration the findings and measures of other committees.

The **Central Credit Committee (CCC)** administers the credit portfolio and controls the Group’s credit risk. It is responsible for the review and approval of the Group’s client credit exposure and non-client counterparty limits and utilizations and for the review of the Group’s credit policy.

The **Treasury Committee** is responsible for the consolidated supervision of the treasury, liquidity, investment activities and cash management of the Group. It controls and manages interest rate risk, short-term liquidity risk and mid- to long-term refinancing risks. The Treasury Committee is mandated in particular to supervise liquidity, refinancing, interest risk exposure, investment income and interestbearing products and accounts.

The **Product Committees** oversee the idea generation, the development and the sales support activities for the new products offered within the Group. These committees bear ultimate functional responsibility for the product approval process and for managing the product development process.

All operational committees are made up of representatives from different divisions and meet at regular intervals, at least quarterly.

Organisation of risk management

Risk management is structured along three lines of defence. The first line of defence is operated by the revenue-generating and operational units. The second line is assured by an independent control unit, with unlimited access to information. The third level of defence is provided by the Internal Audit function.

Independent controls are executed by Risk Office, the Credit department and the Legal & Compliance departments which, from an organisational perspective, are all independent from the first level of defence units. This separation of functions ensures that the business units taking decisions on the level and extent of risk exposure act independently of the departments that analyse the risks assumed and monitor adherence to limits and other competencies. This structure prevents potential conflicts of interest and incompatible objectives as early and as effectively as possible.

The Chief Risk Officer heads the Risk Office department, which is responsible for the comprehensive and systematic control of risk exposure. It ensures that the risk profile of the Group is consistent with the risk tolerance and limits approved in the risk management framework. Risk Office performs in-depth analysis of the Group’s exposure to market, treasury, non-client credit, operational and other risk. It anticipates risk and takes necessary measures to adjust to the Group’s risk profile. It is responsible for ensuring compliance with the risk management process. Risk Office has developed its own risk infrastructure allowing for efficient risk monitoring and robust reporting. The infrastructure undergoes regular updates and enhancements. Risk Office also submits periodic and ad-hoc reports to the Audit and Risk Committee, to the Group Executive Board and to business units.

The Credit department analyses, grants, records and monitors client credits and if necessary initiates measures to prevent credit losses for the Group. Client credits include cash loans, contingent liabilities and transactions with initial margin requirement such as forwards, futures or option contracts. The Credit department defines credit parameters relevant to credit, such as eligibility of assets for lending, lending value rules and initial margin requirement according to the type of derivative transaction.

The Legal & Compliance function supports the Group Executive Board and the management of JSSH Group

Companies in their efforts to ensure that the Group's business activities in Switzerland and abroad comply with applicable legal and regulatory frameworks, as well as with generally accepted market standards and practices. Compliance assures that an appropriate system of directives and procedures is in place and adequate training on compliance matters is provided to relevant staff. It also performs several controls of second line of defence. Other controls such as suitability and cross-border compliance are performed by the Business Development department. The Legal function guarantees that the Group structure and business processes adhere to a legally abiding format, particularly in the areas of service provision to clients and product marketing. Regular and comprehensive risk reporting on compliance and legal risk is provided to the Audit and Risk Committee and the Group Executive Board.

A clearly structured and transparent risk management process allows for the timely identification of risks, their documentation, escalation, resolution and/or close monitoring. The process is applied to all risk categories, both individually and collectively. When introducing new business transactions and new procedures, the risk management process is the basis for the comprehensive assessment and rating of risks associated with a new activity or process. The Group has established a clear process to detect existing or potential risks before entering into any new business. The involvement of all relevant business units at an early stage ensures comprehensive, cross-discipline assessment of every new business transaction or process and its associated risks.

Forms of risk assessment

In-depth risk profiling will result in defining quantitative and qualitative risk indicators. In the case of quantitative indicators and depending on the required level of granularity, these will be measured at minimum against an internal limit as well as a regulatory limit (if applicable). Qualitative indicators are assessed in the context of the "appetite statement" defined in the risk management framework. To the extent possible, these indicators are standardised throughout the Group. The Group makes use of stress testing in order to evaluate the impact of adverse scenarios on different elements: capital adequacy, liquidity, interest rate sensitivity and collateral value of the credit portfolios. In order to estimate the financial impacts on capital adequacy, different scenarios are considered that can be systemic or idiosyncratic. Several scenarios occur yearly while others are defined on an ad-hoc basis. The recurrent themes are the effects of a global recession and a local recession, the impact of a significant change of foreign exchange rates and interest rates and reputational damage. For each scenario, all possible direct and indirect consequences on the profit and loss and on the equity of the Group are considered. A detailed three-year schedule for capital planning and development describes the impact of each scenario on capital adequacy over several years. The ARC assesses the Group's capital and liquidity planning and reports them to the Board of Directors.

Risk categories

The Group is exposed to the following risks through its business activities and services:

- Market risk
- Liquidity risk
- Credit risk including risk of concentration
- Operational and reputation risk, including IT and information security risk
- Legal and compliance risk
- Business and strategic risk

Market risk

Market risk refers to the risk of a loss due to changes in risk parameters (share prices, interest rates and foreign exchange rates) in on-balance or off-balance sheet positions. The Group is exposed to market risk on its trading book in a limited way. Specific limits are set on different parameters at granular level. The monitoring of the limits is automated and performed on an ongoing basis ensuring a timely intervention when justified. A clear and efficient escalation process is in place so that in case of breach the remediation measures are presented to the competent limit owner. Regarding the banking book, market risk limits are in place for the interest rate and foreign exchange exposures as well as regarding derivatives exposures. Specifically, the exposure to interest rate risk is measured via diverging maturities of interest-sensitive positions per currency (gap). The interest rate risk stress testing assesses the impact on the economic value of the balance sheet and on the projected interest income for the following twelve months.

Liquidity risk

The liquidity risk refers to the potential inability of the Group to meet its payment obligations or failure to meet requirements imposed by banking regulations. The Treasury Committee is responsible for monitoring liquidity. The prime objective is to guarantee the Group's ability to meet its payment obligations at all times and to ensure compliance with legal requirements on liquidity. A key task of the Committee is to monitor all relevant liquidity risk factors. These include money flows between subsidiaries and the parent company, inflows and outflows of client funds and changes in the availability of liquidity reserves. As a supporting strategy, target bandwidths are set for surplus coverage of minimum liquidity. These are actively monitored and corresponding measures are taken if liquidity falls below the specified targets. Stress testing allows for the impact of larger outflows combined with the deterioration of Group assets on the liquidity indicators to be assessed.

Credit risk

Credit or counterparty risk is the risk related to a client or a counterparty being either unable, or only partially able, to meet an obligation owed to the Group or to an individual Group company. Such potential counterparty failures may result in financial loss for the Group.

Lending business with clients

Lending activities are mainly limited to private client loans which are secured against securities or mortgages. Lending criteria are very strictly formulated and their appropriateness is continuously reviewed. The lending business with clients respects a strict separation rule between front and support functions where the assessment, approval and monitoring of such business is performed by the latter.

Credit is granted under a system of delegation of authority, based on the size and risk class of the loan, where the Central Credit Committee examines applications and authorises them in line with the delegated authority and the policy defined. Client loans and mortgages are classified by risk classes through an internal rating system, which considers the applied lending value, the average daily turnover and dynamic weightings.

When a loan is granted, the loan-to-value ratio is established on the basis of the current value of the col-lateral. The Group applies loan-to-value criteria which are in line with Swiss banking industry common practice. A system of alerts and internal controls is used to monitor individual situations in which credit risk has increased. The risk profile of the Group's loan portfolio distributed by type of exposure, risk class and collateral type is reviewed on a quarterly basis and reported to management. Non-performing loans and collateral obtained are valued at liquidation value, taking into account any correction for the debtor's solvency. Off-balance sheet transactions are also included in this assessment. The need for provisions is determined individually for each impaired loan based on analysis performed according to a clearly defined procedure. A stress testing on the collateral value of the credit portfolio is performed at least on a quarterly basis.

Lending business with banks, governments and corporates

Transactions entered into with banks, governments and corporates (non-client credit activities) may represent direct exposures or serve the Group's need to manage its foreign exchange, liquidity or interest rate risk and hedge client transactions.

An internal framework regulates the granting of credit limits to non-clients. This framework is based on the Group's general risk appetite, mainly measured in freely disposable capital, and the credit quality of the respective counterparty. The Central Credit Committee approves and reviews the limits granted to non-client counterparties.

The limit requests and the credit analysis of the respective counterparties are performed by credit analysts. The limits are reviewed regularly, but at least once a year or ad-hoc if required by specific credit events. The Group's Risk Office is in charge of monitoring and reporting all exposures on a daily basis.

As a general rule, the emphasis when conducting business on the interbank market is on the quality of the counterparty, but strong focus is also on risk reduction measures wherever possible. Over-the-counter transactions with third-party banks are mainly executed under netting and collateralisation agreements and lending is provided against collateral (repo transaction) whenever appropriate.

The country risk is monitored via a set framework and limits which are both approved by the Board of Directors.

Large exposure and concentration risks

Large exposure risks are monitored for every counterparty and are based on the provisions of the Swiss Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Dealers. A group of related counterparties is regarded as a single counterparty. Large exposure risks are calculated on a risk-weighted basis taking into consideration available collateral provided. The upper limit per counterparty is 25% of the eligible capital calculated in accordance with the statutory requirements. While client receivables are mostly covered by readily realisable collateral and therefore do not represent large exposure risks from a regulatory point of view, prior to entering into positions involving non-clients the Group's Risk Office checks that the critical size of the concentrations is not exceeded.

Operational risk

Operational risk is defined as the risk of loss that arises through the inadequacy or failure of internal procedures, people or systems, or as a consequence of external events. It includes IT and information security risks.

All operational risk incidents are notified to and analysed by Risk Office. Various reports are produced and presented to the Group Executive Board. An Operational Risk Committee meets at regular intervals to review the incidents and issue the necessary recommendations. The continuous measurement, reporting and assessment of segment-specific key risk indicators allows potential weaknesses to be detected well in advance, monitored and escalated. On-going risk and control self-assessment is performed involving representatives from all business units and risk experts in order to identify and catalogue the risks and inadequacies of a specific area. If necessary, targeted action plans are designed to decrease the risk level and align with the Group's risk appetite.

Business Continuity Management (BCM) is designed to maintain or restore critical business functions as quickly as possible in the event of internal or external incidents. BCM aims to minimise financial impact, and protect client assets as well as the Group's reputation. The BCM plan is reviewed yearly by the BCM Board. Regular crisis management exercises are conducted to validate the efficiency of the plan.

In addition to the BCM and the operation risk framework, the Group mitigates potential consequences of risk with tailored insurance solutions. These solutions are regularly reassessed to comply with new emerging risks (fraud, information security) and new regulations.

Reputational risk

Reputation is a critical element shaping stakeholders' perception of the Group's public standing, professionalism, integrity and reliability. Reputational risk can be defined as the existing or potential threat of negative commercial impacts on the Group created by stakeholders' negative perception of the Group. It is most often an event which has occurred as a direct consequence of another risk materialising. To identify potential reputational risks at an early stage and take appropriate preventive measures, the Group strives to instil an intrinsic risk culture in its staff, structures and processes.

Legal and compliance risk

Legal risks relate to potential financial loss as a result of the deficient drafting or implementation of contractual agreements or as a consequence of contractual infringements or illegal and/or culpable actions. It also covers the deficient implementations of changes in the legal and regulatory environment. The legal department is involved as soon as a potential risk has been identified. It assesses the situation and, if appropriate, retains an external lawyer with whom it works to resolve the issue. Such risks have been assessed and provisions have been set aside on a case-by-case basis.

Compliance risk is defined as the risk of legal sanctions, material financial loss, or loss to reputation the Group may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice. Compliance risk relates to many areas, such as anti-money laundering and combating the financing of terrorism, regulatory tax compliance, breaches of the cross-border rules, conduct risks including suitability and appropriateness of products and investments, or market conduct rules.

Business and strategic risk

Business and strategic risk is inherent to external or internal events or decisions resulting in strategic and business objectives not being achieved. Assessment reviews are conducted on a regular basis to evaluate the impact of potential strategic and business risks and define mitigating measures.

Treatment of structured products

Self-issued structured products containing option components shall be separated in the fixed-income instrument and the embedded derivative. The fixed-income instrument is recognised in the balance sheet position "amounts due in respect of customer deposits" and the derivative is recognised in the balance sheet position "Positive or negative replacement values of derivative financial instruments". Assets (stocks, bonds derivatives from third parties, etc.) bought to hedge self-issued structured products are recognized in the respective balance sheet position. For self-issued structured products where the fair value option is applied, the product itself and the corresponding hedging positions in stocks, bonds and funds are recognised in the balance sheet position "Liabilities from other financial instruments at fair value" or "Other financial instruments at fair value", respectively. Potential derivative positions also held for hedging purposes are reported under "Positive or negative replacement values of derivative financial instruments".

Explanation of the methods used for identifying default risks and determining the need for value adjustments

Based on the inherent risk of a credit facility, the Group establishes the individual Credit Risk Class (CRC) which in return defines the review cycle of the facility. All credits are regularly followed by means of a constant monitoring of the adherence to the credit approval and the Group's credit policy. Deviations from the agreed contractual terms with regard to interest payments and/or amortisation, representing potential indicators of default risk, are detected by the afore-mentioned regular credit-monitoring process and trigger a review and re-evaluation of the CRC.

With respect to Lombard facilities, the lending values are periodically reviewed and set by the Group's Central Credit Committee on an asset-by-asset basis. Any lending value exceptions are approved in conjunction with the credit request in question. On this basis, each approved credit facility is given a CRC. Additionally, country concentration imbedded within the portfolios on which the Group lends is also reviewed periodically, as necessary. Lombard loans are monitored daily for margin purposes, and in relevant periodic intervals for repayment purposes. At each such monitoring interval, the CRC of a Lombard facility or group of facilities are continuously reassessed. Any adverse change in the Group's outlook with respect to the collateral shall, on a case-by-case basis, trigger an assessment for the purpose of establishing a provision.

With respect to mortgage facilities, the value of the collateral is assessed based on a property valuation mandated by the Group and performed by a certified value and/or property valuation tool. In addition to the risk-class-based review process and in order to detect a potential material decrease in market value, market prices are analysed and documented against appropriate regional price statistic. If prices of certain regions and/or object types have significantly decreased in value or a corresponding decrease is deemed to be iminent by the Group, the respective mortgage facility/ties are assessed individually and provisions are set aside on a case-by-case basis.

Explanations of the valuation of collateral, in particular key criteria for the calculation of current market value and lending value

The lending business is basically limited to Lombard loans and mortgages. In case of a Lombard loans the collateral is accepted at a percentage of its market value according the Group's credit policy. The lending value depends on the nature, solvency, currency and fungibility of the assets. In case of a mortgage, the maximum pledge rate is defined by the Group's credit policy, the property type and the appraised value of the property.

Explanations of the Group's business policy regarding the use of derivative financial instruments, including explanations relating to the use of hedge accounting

The Group enables clients to trade different types of derivatives. Client derivatives trading activities include options, forwards, futures, swaps on equities, foreign exchange, precious metals, commodities and interest rates. The Group can trade derivative products for its own account, either for proprietary trading or for balance sheet management activities, as long as the necessary limits are approved by the Board of Directors, or square client transactions in the market with third parties in order to eliminate market risk incurred through the client transactions.

The use of derivatives in discretionary portfolio management is restricted to the transactions authorised by the Swiss Bankers' Association asset management guidelines and in accordance with the Group's investment policy.

The Group uses derivative financial instruments as part of its balance sheet management activities in order to manage the risk in its banking book. In order to avoid asymmetric profit and loss recognition, the Group may apply hedge accounting if possible. Interest rate risk of assets and liabilities are typically hedged by interest rate swaps (IRS), but other instruments like forward rate agreements (FRA), futures or interest rate options could also be used. In order to hedge the counterparty risk of financial investments the Group can buy credit default swap (CDS) protection. The hedge relationships with underlying hedged item(s) and hedge transactions are documented and periodically reviewed.

The effectiveness of hedging transactions is measured prospectively either by the differential of sensitivity to the risk parameter, within a predefined corridor, of the hedged item(s) and the hedging transaction, or by matching the cash flows of the hedge and the risk position. The hedging relationships are periodically checked, whether hedged item(s) and hedging transaction are still in place and hedge effectiveness is guaranteed.

Where the effect of the hedging transactions exceeds the effect of the hedged items, the excess portion of the derivative financial instrument is treated as equivalent to a trading position. The excess portion is recorded in the profit and loss item "Result from trading activities".

Subsequent events

No events affecting the balance sheet or income statement are to be reported for the financial year 2017.

Consolidated notes – Information on the balance sheet

Breakdown of securities financing transactions (assets and liabilities)

CHF 000	**2017**	2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions (before netting agreements)	184,415	283,030
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions (before netting agreements)	151,609	0
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	686,380	251,195
with unrestricted right to resell or pledge	534,771	251,195
Fair value of securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	562,267	580,026
of which, repledged securities	1,930	3,535
of which, resold securities	0	0

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

CHF 000	Mortgage collateral	Secured by other collateral	Without collateral	Total
Loans (before netting with value adjustments)				
Amounts due from customers	259,600	7,478,857	34,587	7,773,044
Mortgages loans				
Residential property	836,351	0	0	836,351
Office and business premises	372,931	0	0	372,931
Trade and industry	236,349	0	0	236,349
Others	750	0	0	750
Total loans (before netting with value adjustments)				
Current year	**1,705,981**	**7,478,857**	**34,587**	**9,219,425**
Previous year	1,974,018	5,935,688	25,415	7,935,121
Total loans (after netting with value adjustments)				
Current year	**1,585,742**	**7,363,546**	**1,339**	**8,950,627**
Previous year	1,877,066	5,819,471	1,982	7,698,519
Off balance sheet transactions				
Contingent liabilities	0	766,536	1,078	767,614
Irrevocable commitments	0	17,919	0	17,919
Obligations to pay up shares and make further contributions	0	0	1,487	1,487
Total current year	**0**	**784,455**	**2,565**	**787,020**
Previous year	0	612,423	9,236	621,659

Impaired loans

CHF 000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
Current year	**408,186**	**139,388**	**268,798**	**268,798**
Previous year	381,001	144,399	236,602	236,602

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

CHF 000	**31.12.2017**	31.12.2016
Assets		
Trading portfolios		
Debt securities, money market securities/transactions	7,435	1,717
of which, listed	7,435	1,717
Equity securities	315,923	263,408
Precious metals and commodities	468,933	368,965
Other trading portfolio assets	0	0
Other financial instruments at fair value		
Debt securities	136,941	561
Structured products	0	0
Other	820,545	792,993
Total assets	**1,749,777**	**1,427,644**
of which, determined using a valuation model	0	0
of which, securities eligible for repo transactions		
in accordance with liquidity requirements	0	645
Liabilities		
Trading portfolios		
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 liabilities	0	0
Other financial instruments at fair value		
Debt securities	142,035	0
Structured products	0	0
Other	929,651	590,071
Total liabilities	**1,071,686**	**590,071**
of which, determined using a valuation model	0	0

Presentation of derivative financial instruments (assets and liabilities)

CHF 000	Positive replacement values	Negative replacement values	Contract volumes
Trading instruments			
Interest rate instruments			
Forward agreements	230	228	19,226
Swaps	87,118	91,541	8,026,669
Total interest rate instruments	**87,348**	**91,769**	**8,045,895**
Foreign exchange			
Forward agreements	57,816	85,138	7,900,648
Combined interest/currency swaps	444,203	423,261	35,573,198
Options (OTC)	72,433	80,750	12,822,735
Total foreign exchange	**574,452**	**589,149**	**56,296,581**
Equity securities/indices			
Forward agreements	260	235	120,963
Futures	936	9	2,168
Options (OTC)	54,804	41,744	2,361,902
Options (exchange traded)	34,831	29,007	1,148,631
Total equity securities/indices	**90,831**	**70,995**	**3,633,664**
Precious metals			
Forward agreements	218	287	37,538
Swaps	2,883	2,798	130,604
Options (OTC)	10,143	9,403	741,115
Total precious metals	**13,244**	**12,488**	**909,257**
Credit derivatives			
Credit default swaps	24	24	1,950
Total credit derivatives	**24**	**24**	**1,950**
Other			
Forward agreements	100	81	30,537
Total other	**100**	**81**	**30,537**
Total trading instruments before netting agreements on 31.12.2017	**765,999**	**764,506**	**68,917,884**
Total trading instruments before netting agreements on 31.12.2016	737,700	639,431	59,925,369
Hedge instruments			
Interest rate instruments			
Swaps	4,856	6,160	278,885
Total hedge instruments on 31.12.2017	**4,856**	**6,160**	**278,885**
Total hedge instruments on 31.12.2016	7,361	8,252	283,809
Total before netting agreements on 31.12.2017	**770,855**	**770,666**	**69,196,769**
of which, determined using a valuation model	0	0	–
Total before netting agreements on 31.12.2016	745,061	647,683	60,209,177
of which, determined using a valuation model	0	0	–
Total after netting agreements on 31.12.2017	**224,029**	**328,264**	
Total after netting agreements on 31.12.2016	384,605	369,799	

Breakdown by counterparty	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements) on 31.12.2017	**7,676**	**199,762**	**16,591**
Positive replacement values (after netting agreements) on 31.12.2016	43,516	223,339	117,750

Financial investments

CHF 000	**Book value 31.12.2017**	**Fair value 31.12.2017**	Book value 31.12.2016	Fair value 31.12.2016
Debt securities	2,752,242	2,769,033	2,469,935	2,492,748
of which, intended to be held until maturity	2,751,244	2,767,982	2,462,580	2,485,348
of which, not intended to be held to maturity (available for sale)	998	1,051	7,355	7,400
Equity securities	142,177	212,000	9,728	55,578
of which, qualified participations	0	0	0	0
Precious metals	0	0	0	0
Real estate	35,116	35,116	7,701	7,701
Total financial investments	**2,929,535**	**3,016,149**	**2,487,364**	**2,556,027**
of which, securities eligible for repo transactions in accordance with liquidity regulations	**111,025**		233,332	

Breakdown of counterparties by rating

CHF 000	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	below B–	unrated
Debt securities:						
Book value on 31.12.2017	**965,852**	**480,925**	**449,055**	**489,759**	**5,985**	**360,666**
Book value on 31.12.2016	985,936	698,675	285,008	204,324	10,601	285,391

The above rating is based on the credit rating of Standard & Poor's.

Participations

CHF 000	Acquisition costs	Accumulated value adjustments	Book value as at 31.12.2016	Reclassi-fications	Additions	Disposals	Value adjustments	**Book value as at 31.12.2017**	Market value
Participations valued using the equity method									
with market value	0	0	0	0	0	0	0	0	0
without market value	0	0	0	0	0	0	0	0	–
Other participations									
with market value	20,477	–265	20,212	0	0	0	0	20,212	59,384
without market value	0	0	0	0	0	0	0	0	–
Total participations	**20,477**	**–265**	**20,212**	**0**	**0**	**0**	**0**	**20,212**	**59,384**

Significant participating interests

	Place of Incorporation	Activity	Currency	Share Capital '000s	% of equity/ votes	Direct/ indirect ownership
Bank J. Safra Sarasin (Gibraltar) Ltd	Gibraltar	Bank	CHF	1,000	100.00%	direct
J. Safra Sarasin Asset Management (Europe) Ltd	Gibraltar	Advisory	CHF	4,000	100.00%	indirect
JSS (Gibraltar) Ltd	Gibraltar	Holding	GBP	2	100.00%	indirect
Bank JSS (Gibraltar) Ltd	Gibraltar	Bank	GBP	5,000	100.00%	indirect
J. Safra Sarasin Gestion (Monaco) SA	Monaco	Advisory	EUR	160	100.00%	direct
Bank J. Safra Sarasin Asset Management (Middle East) Ltd	Dubai	Asset Management	USD	22,000	100.00%	direct
Bank J. Safra Sarasin (QFC) LLC	Doha	Asset Management	USD	2,000	100.00%	direct
J. Safra Sarasin Asset Management (Isreal) Ltd[1]	Tel Aviv	Advisory	ILS	350	100.00%	indirect
Eichenpark Verwaltungs GmbH	Glashuetten	Holding	EUR	25	100.00%	direct
bank zweiplus ltd	Zurich	Bank	CHF	35,000	57.50%	direct
cash zweiplus ltd[2]	Zurich	Information	CHF	1,000	28.75%	indirect
J. Safra Sarasin (Deutschland) GmbH[3]	Frankfurt	Bank	EUR	1,000	100.00%	direct
J. Safra Sarasin Trust Company (Singapore) Ltd.	Singapore	Trust Company	USD	1,000	100.00%	direct
Sarabet Ltd	Basel	Holding	CHF	3,250	100.00%	direct
Sarasin (U.K.) Ltd	London	Holding	GBP	17,900	100.00%	indirect
S.I.M. Partnership (London) Ltd	London	Holding	GBP	727	60.00%	indirect
Sarasin & Partners LLP	London	Asset Management	GBP	15,051	60.00%	indirect
Sarasin Asset Management Ltd	London	Asset Management	GBP	250	60.00%	indirect
Sarasin Investment Funds Ltd	London	Fund Management	GBP	250	60.00%	indirect
Sarasin Funds Management (Ireland) Ltd	Dublin	Fund Management	GBP	500	60.00%	indirect
JSS Administradora de Recursos Ltda.	Sao Paulo	Advisory	BRL	1,711	100.00%	indirect
JSS Global Real Estate Management Co Sarl	Luxembourg	Fund Management	EUR	125	100.00%	indirect
J. Safra Sarasin Investmentfonds Ltd	Basel	Fund Management	CHF	4,000	100.00%	indirect
J. Safra Sarasin Fund Management (Luxembourg) S.A.	Luxembourg	Fund Management	EUR	1,500	100.00%	indirect

1) Fully consolidated for the first time.

2) The shareholders in cash zweiplus ltd have put options in respect of the shares in cash zweiplus ltd.

3) Former “Bank J. Safra Sarasin (Deutschland) AG” surrendered its banking license with effect on 31.12.2017 and was subsequently renamed.

Non consolidated investments in subsidiary companies

	Place of Incorporation	Activity	Currency	Share Capital '000s	% of equity/ votes	Direct/ indirect ownership
SIX Group AG	Zurich	Stock exchange	CHF	19,522	2.24%	indirect
PFBK Schweizerische Hypothekarinstitute AG	Zurich	Mortgage company	CHF	900,000	0.33%	indirect

Tangible fixed assets

CHF 000	Acquisition costs	Accumulated depreciation	Book value as at 31.12.2016	Change in scope of consolidation	Reclassi-fications	Additions	Disposals	Depreciation	**Book value as at 31.12.2017**
Real estate: bank buildings	217,753	–70,836	146,917	0	0	80,598	21	–4,484	223,052
Real estate: other real estate	4,985	–1,746	3,239	0	0	0	0	–83	3,156
Proprietary or separately acquired software	52,309	–45,764	6,545	0	0	1,886	–5	–2,643	5,783
Other fixed assets	144,649	–85,739	58,910	0	0	3,709	1,151	–12,882	50,888
Tangible assets acquired under finance leases:	0	0	0	0	0	0	0	0	0
of which, bank buildings	0	0	0	0	0	0	0	0	0
of which, other real estate	0	0	0	0	0	0	0	0	0
of which, other tangible fixed assets	0	0	0	0	0	0	0	0	0
Total fixed assets	**419,696**	**–204,085**	**215,611**	**0**	**0**	**86,193**	**1,167**	**–20,092**	**282,879**

Operating Leases

CHF 000	**31.12.2017**	31.12.2016
Remaining maturity < 1 year	16,513	16,741
Remaining maturity 1–5 years	33,603	35,854
Remaining maturity more than 5 years	7,128	11,708
Total liabilities from operating lease	**57,244**	**64,303**
of which, remaining maturity < 1 year that can be terminated within one year	106	118

Intangible assets

CHF 000	Acquisition costs	Accumulated amortisation	Book value as at 31.12.2016	Reclassi-fications	Additions	Disposals	Amortisation	**Book value as at 31.12.2017**
Goodwill	0	0	0	0	0	0	0	0
Patents	0	0	0	0	0	0	0	0
Licences	0	0	0	0	0	0	0	0
Other intangible assets	35,533	–16,120	19,413	0	0	0	–5,809	13,604
Total intangible assets	**35,533**	**–16,120**	**19,413**	**0**	**0**	**0**	**–5,809**	**13,604**

Other assets/Other liabilities

CHF 000	**31.12.2017**	31.12.2016
Other assets		
Compensation account	13,630	19,003
Deferred income taxes recognised as assets	7,629	8,704
Amount recognised as assets in respect of employer contribution reserves	0	0
Amount recognised as assets relating to other assets from pension schemes	0	0
Others	30,055	41,650
Total	**51,314**	**69,357**
Other liabilities		
Compensation account	6,606	9,185
Others	73,721	104,977
Total	**80,327**	**114,162**

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

CHF 000	**Book value 31.12.2017**	**Effective commitment 31.12.2017**	Book value 31.12.2016	Effective commitment 31.12.2016
Financial instruments	719,948	558,311	610,116	375,232
Other assets	137,470	130,344	29,329	29,329
Total pledged assets	**857,418**	**688,655**	**639,445**	**404,561**

There are no assets under reservation of ownership. The assets are pledged for commitments from securities borrowing, for lombard limits at central banks and for stock exchange security.

Disclosure of liabilities relating to own pension schemes, and number and nature of equity instruments of the Group held by own pension schemes

CHF 000	**31.12.2017**	31.12.2016
Liabilities to own pension plans	**35,840**	**38,195**

Pension schemes

The Group operates a number of pension schemes for its employees in Switzerland and abroad. Employees in Switzerland are covered either by the pension fund of Bank J. Safra Sarasin or by the collective foundation "Trianon". These pension schemes are defined contribution plans. Also all pension schemes based outside of Switzerland are defined contribution plans.There is neither a surplus nor a deficit coverage. The contributions for the period are shown as personnel costs in the income statement.

The purpose of the pension scheme is to provide pension benefits for employees of the Group upon retirement or disabilityand for the employees' survivors after their death. It manages the mandatory retirement, survivors' and disability benefits in accordance with the BVG ("Berufliche Vorsorge") in Switzerland.

The Group does not have any patronage funds.

Employer's contribution reserves (ECR)

CHF 000	**Nominal value 31.12.2017**	**Renunciation of use 31.12.2017**	**Creation 2017**	**Balance sheet 31.12.2017**	Balance sheet 31.12.2016	**Result from ECR in personnel expenses 2017**	Result from ECR in personnel expenses 2016
Patronage funds/pension schemes	**0**	**0**	**0**	**0**	0	**0**	0

Economic benefit / economic obligation and pension benefit expenses

CHF 000	**Surplus/ (deficit) 31.12.2017[1)]**	**Economical part of the organisation 31.12.2017**	Economical part of the organisation 31.12.2016	**Change in the prior year period or recognised in the current result of the period**	**Contributions concerning the business period**	**Pension benefit expenses within personnel expenses 2017**	Pension benefit expenses within personnel expenses 2016
Pension schemes with surplus	**14,905**	**0**	0	**0**	**23,113**	**23,113**	23,787
Pension schemes without surplus / (deficit)	**0**	**0**	0	**0**	**7,716**	**7,716**	6,765
Total	**14,905**	**0**	0	**0**	**30,829**	**30,829**	30,552

1) At the publication date the final financial statements of the pension schemes were not available. Therefore the figures are based on the financial statements of the pension schemes 2016.

The financial statements of the pension funds in Switzerland are prepared in accordance with Swiss GAAP FER 26.

Presentation of issued structured products

Underlying risk of the embedded derivative

CHF 000	Valued separately: Value of the host instrument	Valued separately: Value of the derivative	Total 31.12.2017	Valued separately: Value of the host instrument	Valued separately: Value of the derivative	Total 31.12.2016
Interest rate instruments						
With own debenture component (oDC)	**0**	**0**	**0**	0	0	0
Without oDC	**0**	**0**	**0**	0	0	0
Equity securities						
With own debenture component (oDC)	**791,548**	**–18,316**	**773,232**	666,521	–29,082	637,439
Without oDC	**0**	**0**	**0**	0	0	0
Foreign currencies						
With own debenture component (oDC)	**31,253**	**–157**	**31,096**	67,764	–756	67,008
Without oDC	**0**	**0**	**0**	0	0	0
Commodities/precious metals						
With own debenture component (oDC)	**1,007**	**41**	**1,048**	4,754	–260	4,494
Without oDC	**0**	**0**	**0**	0	0	0
Total	**823,808**	**–18,432**	**805,376**	**739,039**	**–30,098**	**708,941**

Presentation of bonds outstanding and mandatory convertible bonds

		Year of issuance	Early termination possibilities	Weighted average interest rate	Maturity date	Amount outstanding CHF 000
Issuer						
Bank J. Safra Sarasin Ltd	Non-subordinated	2014	no	1%	28.05.2020	154,500
Bank J. Safra Sarasin Ltd	Non-subordinated	2017	no	0%	01.02.2018	205,256
Bank J. Safra Sarasin Ltd	Non-subordinated mortgage backed-bonds	2012–2013	no	0.93%	2018–2024	93,616

Overview of maturities of bonds outstanding

CHF 000	<1 year	>1–<2 ys	>2–<3 ys	>3–<4 ys	>4–<5 ys	>5 years	**Total**
Issuer							
Bank J. Safra Sarasin Ltd	222,256	49,208	174,903	2,997	0	4,008	**453,372**

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

CHF 000	Balance as at 31.12.2016	Use in conformity with designated purpose	Change in scope of conso-lidation	Reclassi-fications	Currency differences	Past due interest, recoveries	New creations charged to income	Release to income	**Balance as at 31.12.2017**
Provisions for deferred taxes	942	0	0	0	0	0	0	–93	849
Provisions for pension benefit obligations	0	0	0	0	0	0	0	0	0
Provisions for default risks (off-balance sheet)	0	0	0	0	0	0	0	0	0
Provisions for other business risks	1,346	–73	0	0	0	0	0	0	1,273
Provisions for restructuring	0	0	0	0	0	0	0	0	0
Other provisions	11,541	–2	0	0	47	0	29,950	0	41,536
Total provisions	**13,829**	**–75**	**0**	**0**	**47**	**0**	**29,950**	**–93**	**43,658**
Reserves for general banking risks	**36,000**	**0**	**0**	**0**	**0**	**0**	**0**	**–14,000**	**22,000**
Value adjustments for default and country risks	**248,291**	**–9,449**	**0**	**0**	**4,486**	**25,754**	**16,183**	**0**	**285,265**
of which, value adjust-ments for default risks in respect of impaired loans / receivables	236,602	–9,449	0	0	4,486	26,136	11,023	0	268,798
of which, value adjust-ments for latent risks	0	0	0	0	0	0	0	0	0

Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
CHF 000	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Holders of qualified participations	13,725	2,549	424	–
Group companies	–	–	–	–
Linked companies	2,823,987	2,993,233	3,734,362	1,179,216
Transactions with members of governing bodies	9,588	4,826	13,267	8,393
Other related parties	–	–	–	–

Above-mentioned operations are concluded at arm’s length.

Off-balance-sheet transactions with any of the above-mentioned parties are mainly foreign exchange operations.

Presentation of the maturity structure of financial instruments

CHF 000	At sight	Cancellable	Due within 3 months	Due within 3 to 12 months	Due within 12 months to 5 years	Due more than 5 years	No maturity	Total
Liquid assets	5,698,273	0	0	0	0	0	0	5,698,273
Amounts due from banks	844,134	0	2,278,972	130,883	0	175,523	0	3,429,512
Amounts due from securities financing transactions	77,110	9,855	97,450	0	0	0	0	184,415
Amounts due from customers	787,858	379,298	5,379,715	511,084	280,045	166,263	0	7,504,263
Mortgage loans	5,244	0	595,201	149,351	668,346	28,222	0	1,446,364
Trading portfolio assets	792,291	0	0	0	0	0	0	792,291
Positive replacement values of derivative financial instruments	770,855	0	0	0	0	0	0	770,855
Other financial instruments at fair value	957,486	0	0	0	0	0	0	957,486
Financial investments	177,291	0	1,012,011	191,289	1,038,867	510,077	0	2,929,535
Total 31.12.2017	**10,110,542**	**389,153**	**9,363,349**	**982,607**	**1,987,258**	**880,085**	**0**	**23,712,994**
Total 31.12.2016	9,049,406	266,303	9,054,327	850,880	1,857,420	314,104	0	21,392,440
Due to banks	567,857	28,914	2,922,723	387,286	440,057	0	0	4,346,837
Liabilities from securities financing transactions	0	0	151,609	0	0	0	0	151,609
Amounts due in respect of customer deposits	10,586,168	780,872	2,904,483	472,991	51,526	0	0	14,796,040
Negative replacement values of derivative financial instruments	770,666	0	0	0	0	0	0	770,666
Liabilities from other financial instruments at fair value	1,071,686	0	0	0	0	0	0	1,071,686
Bond issues and central mortgage institution loans	0	0	216,257	5,999	227,108	4,008	0	453,372
Total 31.12.2017	**12,996,377**	**809,786**	**6,195,072**	**866,276**	**718,691**	**4,008**	**0**	**21,590,210**
Total 31.12.2016	13,588,370	620,831	3,717,218	646,268	800,684	4,010	0	19,377,381

Assets and liabilities by domestic and foreign origin

	31.12.2017		31.12.2016	
CHF 000	**Swiss**	**Foreign**	Swiss	Foreign
Assets				
Liquid assets	5,676,576	21,697	4,902,845	55,014
Amounts due from banks	194,351	3,235,161	252,362	3,540,601
Amounts due from securities financing transactions	0	184,415	20,000	263,030
Amounts due from customers	802,478	6,701,785	651,398	5,527,179
Mortgage loans	584,483	861,881	675,271	844,671
Trading portfolio assets	643,548	148,743	482,975	151,115
Positive replacement values of derivative financial instruments	96,852	674,003	98,242	646,819
Other financial instruments at fair value	422,360	535,126	519,424	274,130
Financial investments	250,171	2,679,364	236,409	2,250,955
Accrued income and prepaid expenses	48,695	72,495	44,234	56,138
Non-consolidated participations	20,096	116	20,096	116
Tangible fixed assets	277,952	4,927	208,158	7,453
Intangible assets	13,203	401	18,860	553
Other assets	32,706	18,608	34,662	34,695
Total assets	**9,063,471**	**15,138,722**	**8,164,936**	**13,652,469**
Liabilities				
Amounts due to banks	361,966	3,984,871	318,622	1,491,502
Liabilities from securities financing transactions	0	151,609	0	0
Amounts due in respect of customer deposits	5,074,822	9,721,218	5,237,761	10,790,785
Negative replacement values of derivative financial instruments	87,925	682,741	107,711	539,972
Liabilities from other financial instruments at fair value	728,927	342,759	590,071	0
Bond issues and central mortgage institution loans	453,372	0	300,957	0
Accrued expenses and deferred income	154,269	62,312	151,736	51,800
Other liabilities	24,503	55,824	58,763	55,399
Provisions	42,722	936	13,829	0
Reserves for general banking risks	22,000	–	36,000	0
Share capital	22,015	0	22,015	0
Capital reserve	844,797	0	844,797	0
Retained earnings reserve	659,021	538,873	583,005	506,124
Currency translation reserve	–776	–28,890	–776	–33,400
Minority interests in equity	18,662	13,669	19,025	11,558
Consolidated profit	18,990	163,056	41,191	78,958
Total liabilities	**8,513,215**	**15,688,978**	**8,324,707**	**13,492,698**

Assets by countries/country groups

	31.12.2017		31.12.2016	
CHF 000	**Total**	**Part as a %**	Total	Part as a %
Europe	4,129,996	17.1%	4,013,240	18.4%
Americas	6,987,642	28.9%	6,535,624	30.0%
Asia	3,740,717	15.5%	2,790,306	12.8%
Others	280,367	1.2%	313,299	1.4%
Total foreign assets	**15,138,722**	**62.6%**	**13,652,469**	**62.6%**
Switzerland	9,063,471	37.4%	8,164,936	37.4%
Total assets	**24,202,193**	**100.0%**	**21,817,405**	**100.0%**

Breakdown of total net foreign assets by credit rating of country groups (risk domicile view)

	31.12.2017		31.12.2016	
	Net foreign exposure CHF 000	Part as a %	Net foreign exposure CHF 000	Part as a %
Standard & Poor's				
AAA to AA–	3,554,873	95.9%	3,913,212	95.8%
A+ to A–	151,069	4.1%	172,580	4.2%
Total net foreign assets	**3 705 942**	**100.0%**	**4 085 792**	**100.0%**

Basis for Country Ratings: Standard & Poor's Issuer Credit Ratings Foreign Currency LT (long term).

Balance sheet by currencies

CHF 000	CHF	EUR	USD	Others	Total
Assets					
Liquid assets	5,676,567	9,287	261	12,158	5,698,273
Amounts due from banks	577,371	457,209	1,621,007	773,925	3,429,512
Amounts due from securities financing transactions	0	77,110	107,305	0	184,415
Amounts due from customers	918,564	1,215,244	3,757,925	1,612,530	7,504,263
Mortgage loans	639,537	133,468	19,776	653,583	1,446,364
Trading portfolio assets	315,176	15,213	28,501	433,401	792,291
Positive replacement values of derivative financial instruments	528,456	55,793	159,047	27,559	770,855
Other financial instruments at fair value	396,444	157,114	334,356	69,572	957,486
Financial investments	358,600	331,357	1,171,655	1,067,923	2,929,535
Accrued income and prepaid expenses	19,256	16,031	59,055	26,848	121,190
Non-consolidated participations	20,212	0	0	0	20,212
Tangible fixed assets	275,697	0	4,077	3,105	282,879
Intangible assets	13,604	0	0	0	13,604
Other assets	36,959	8,991	–7,858	13,222	51,314
Total balance sheet assets	**9,776,443**	**2,476,817**	**7,255,107**	**4,693,826**	**24,202,193**
Delivery entitlements from spot exchange, forward forex and forex options transaction	4,856,594	12,456,580	26,073,004	13,819,660	57,205,838
Total assets 31.12.17	**14,633,037**	**14,933,397**	**33,328,111**	**18,513,486**	**81,408,031**
Liabilities					
Amounts due to banks	172,661	394,709	2,483,004	1,296,463	4,346,837
Liabilities from securities financing transactions	0	0	151,609	0	151,609
Amounts due in respect of customer deposits	2,442,319	2,791,121	6,754,202	2,808,398	14,796,040
Negative replacement values of derivative financial instruments	510,259	61,030	164,401	34,976	770,666
Liabilities from other financial instruments at fair value	417,538	245,036	402,777	6,335	1,071,686
Bond issues and central mortgage institution loans	453,372	0	0	0	453,372
Accrued expenses and deferred income	101,986	18,533	55,409	40,653	216,581
Other liabilities	39,923	3,294	21,785	15,325	80,327
Provisions	42,722	936	0	0	43,658
Reserves for general banking risks	22,000	0	0	0	22,000
Share capital	22,015	0	0	0	22,015
Capital reserve	844,797	0	0	0	844,797
Retained earnings reserve	1,238,380	–55,846	1,161	14,199	1,197,894
Currency translation reserve	–776	–10,574	–113	–18,203	–29,666
Minority interests in equity	18,662	0	0	13,669	32,331
Consolidated profit	32,985	86,786	26,633	35,642	182,046
Total balance sheet liabilities	**6,358,843**	**3,535,025**	**10,060,868**	**4,247,457**	**24,202,193**
Delivery obligations from spot exchange, forward forex and forex options transactions	8,327,772	11,398,711	23,244,794	14,232,377	57,203,654
Total liabilities 31.12.2017	**14,686,615**	**14,933,736**	**33,305,662**	**18,479,834**	**81,405,847**
Net currency positions 31.12.2017	**–53,578**	**–339**	**22,449**	**33,652**	**2,184**

Consolidated notes – Information on off-balance sheet transactions

Breakdown and explanation of contingent assets and liabilities

CHF 000	**31.12.2017**	31.12.2016
Guarantees to secure credits and similar	456,547	315,227
Performance guarantees and similar	307,496	245,583
Irrevocable commitments arising from documentary letters of credit	0	0
Others	3,571	6,096
Total contingent liabilities	**767,614**	**566,906**
Contingent assets arising from tax losses carried forward	22,485	18,006
Other contingent assets	0	0
Total contingent assets	**22,485**	**18,006**

Breakdown of credit commitments

CHF 000	**31.12.2017**	31.12.2016
Commitments arising from deferred payments	0	0
Commitments arising from acceptances (for liabilities arising from acceptances in circulation)	0	0
Other credit commitments	0	0

Breakdown of fiduciary transactions

CHF 000	**31.12.2017**	31.12.2016
Fiduciary investments with third-party banks	766,664	555,159
Fiduciary investments with linked companies	1,689,976	957,734
Fiduciary loans	0	0
Fiduciary transactions arising from securities lending and borrowing, which the Group conducts in its own name for the account of customers	0	0
Other fiduciary transactions	0	0
Total	**2,456,640**	**1,512,893**

Breakdown of managed assets and presentation of their development

CHF million	**2017**	2016
Type of managed assets		
Assets in collective investment schemes by the Group	16,826	13,509
Assets under discretionary asset management agreements	25,670	26,594
Other managed assets	84,002	71,900
Total managed assets (including double-counting)	**126,498**	**112,003**
of which double-counted items	11,762	8,778
Development of managed assets		
Total managed assets (including double-counting) at beginning	112,003	110,268
+/− net new money inflow or net new money outflow	634	–337
+/− price gains / losses, interest, dividends and currency gains / losses	12,730	2,379
+/− reallocation to other group companies	3	0
+/− other effects	1,128	–307
Total managed assets (including double-counting) at end	**126,498**	**112,003**

Assets under management mainly comprise amounts due to customers in the form of savings and investments, along with term accounts, fiduciary investments, all duly valued assets in custody accounts and linked sight accounts. Assets under management also include assets held for investment purposes by institutional investors, companies and individual clients, along with investment funds.

Discretionary managed accounts include clients' assets with signed discretionary management mandates in favour of an entity of the Group.

Other managed assets include client assets for whom one of the entities of the Group provides all services arising from stock exchange and foreign exchange transactions on the basis of instructions received, as well as safekeeping, loans and payments.

Net new inflows/outflows comprise all external inflows and outflows of cash and securities recorded on client accounts.

Consolidated notes – Information of the income statement

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

CHF 000	**2017**	2016
Breakdown by business area		
Trading profit with market risk	48,586	40,661
Trading profit without market risk	90,880	71,459
Trading profit from treasury activities	2,767	5,651
Total	**142,233**	**117,771**

Breakdown by underlying risk and based on the use of the fair value option		
Result from trading activities from:		
Interest rate instruments	–300	–3,978
Equity securities (including funds)	63,530	44,163
Foreign currencies	75,374	72,720
Commodities/precious metals	3,629	4,866
Total result from trading activities	**142,233**	**117,771**
of which, from fair value option	25,803	–1,286

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

CHF 000	**2017**	2016
Material refinancing income in the item “Interest and discount income”	0	0
Material negative interest	35,183	33,983

Breakdown of personnel expenses

CHF 000	**2017**	2016
Salaries	351,535	351,217
of which, expenses relating to share-based compensation and alternative forms of variable compensation	78,761	86,775
Social charges	59,553	58,842
Changes in book value for economic benefits and obligations arising from pension schemes	0	0
Other personnel expenses	16,797	18,618
Total	**427,885**	**428,677**

Breakdown of general and administrative expenses

CHF 000	**2017**	2016
Office space expenses	27,545	25,437
Expenses for information and communications technology	17,688	17,082
Expenses for vehicles, equipment, furniture and other fixtures, as well as operating lease expenses	618	730
Fees of audit firm	2,920	3,090
of which, for financial and regulatory audits	2,810	2,766
of which, for other services	110	324
Other operating expenses	78,072	78,144
of which, compensation for any cantonal guarantee	0	0
Total	**126,843**	**124,483**

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

In that context of an impairment of our participation in Germany the reserve for general banking risks was released partially for an amount of CHF 14 million in BJSS Ltd.

Disclosure of and reasons for revaluations of participations and tangible fixed assets up to acquisition cost at maximum

No revaluations of participations and tangible fixed assets up to acquistion cost have taken place.

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

	2017			2016		
CHF 000	**Swiss**	**Foreign**	**Total**	Swiss	Foreign	Total
Net result from interest operations	163,760	10,865	174,625	103,161	67,229	170,390
Subtotal result from commission business and services	266,764	197,901	464,665	249,360	178,697	428,057
Result from trading activities and the fair value option	124,323	17,910	142,233	88,139	29,632	117,771
Subtotal other result from ordinary activities	15,278	3,270	18,548	5,675	2,101	7,776
Operating income	**570,125**	**229,946**	**800,071**	**446,335**	**277,659**	**723,994**
Personnel expenses	–276,307	–151,578	–427,885	–282,793	–145,884	–428,677
General and administrative expenses	–72,156	–54,687	–126,843	–72,658	–51,825	–124,483
Subtotal operating expenses	**–348,463**	**–206,265**	**–554,728**	**–355,451**	**–197,709**	**–553,160**
Depreciation and amortisation of tangible fixed assets and intangible assets and value adjustments on participations	–20,202	–5,699	–25,901	–22,195	–4,991	–27,186
Changes to provisions and other value adjustments, and losses	–30,481	–1,218	–31,699	–2,454	2,956	502
Operating result	**170,979**	**16,764**	**187,743**	**66,235**	**77,915**	**144,150**

Presentation of capital taxes, current taxes, deferred taxes, and disclosure of tax rate

CHF 000	**2017**	2016
Current income and capital tax expenses	19,033	15,009
Allocation to provisions for deferred taxes	–93	20
Recognition of deferred income taxes	964	8,974
Total	**19,904**	**24,003**

In anticipation of the planned reduction of corporate income tax rates in Switzerland, the expected tax rates used for the calculation of deferred tax assets were lowered accordingly.

The weighted average tax rate amounts to 8.4% (2016: 14.1%).

In 2017, the ordinary net tax expense effect of the use of losses carried forward was CHF 1.3 million (2016: CHF 9.0 million).

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To the General Meeting of
Bank J. Safra Sarasin Ltd, Basel

Report of the Statutory Auditor on the Consolidated Financial Statements

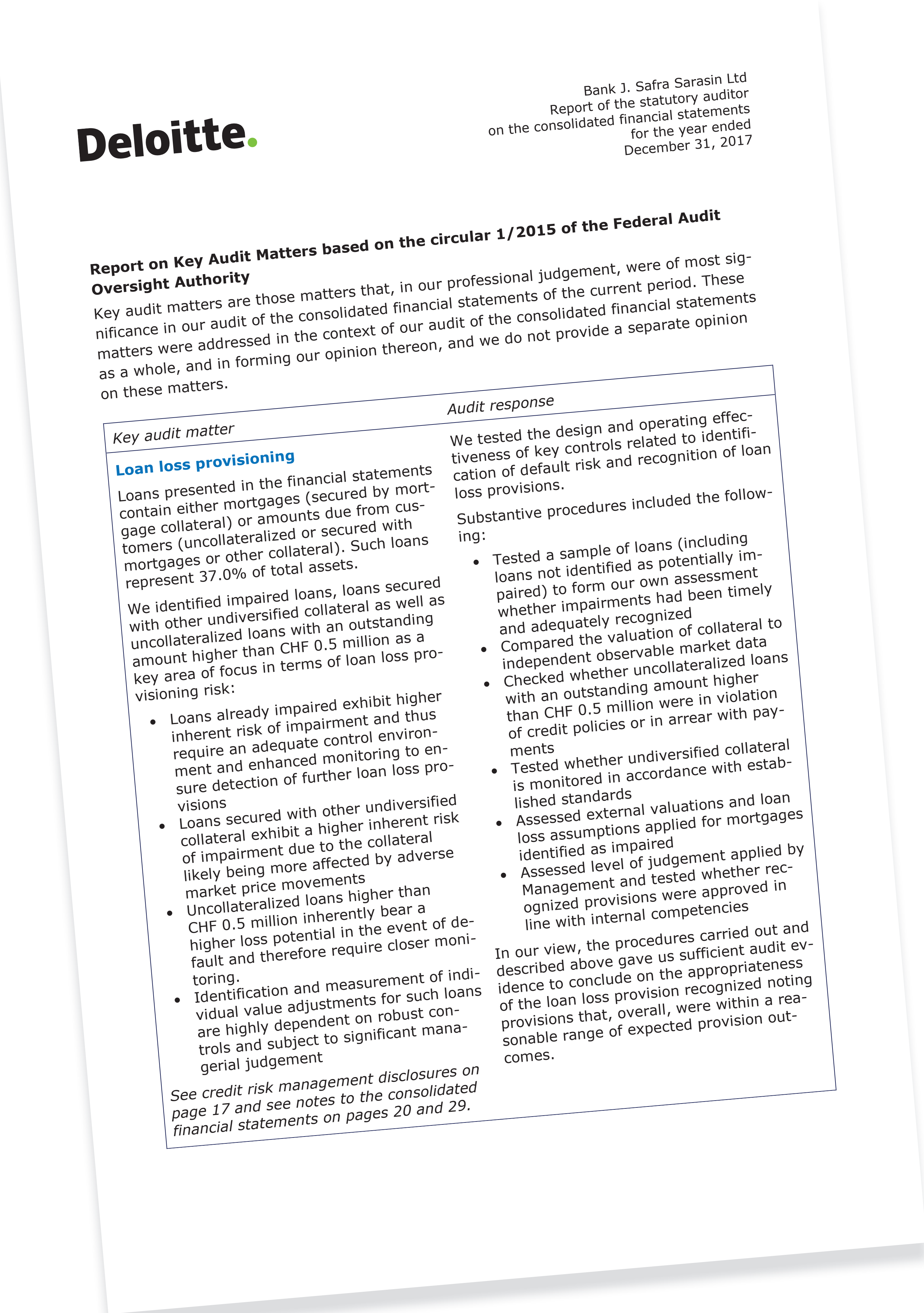
As statutory auditor, we have audited the accompanying consolidated financial statements of Bank J. Safra Sarasin Ltd, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with Swiss accounting principles applicable for banks and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements for the year ended December 31, 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss accounting principles applicable for Banks and comply with Swiss law.



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Bank J. Safra Sarasin Ltd
Report of the statutory auditor
on the consolidated financial statements
for the year ended
December 31, 2017

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*Audit response*
Loan loss provisioning Loans presented in the financial statements contain either mortgages (secured by mortgage collateral) or amounts due from customers (uncollateralized or secured with mortgages or other collateral). Such loans represent 37.0% of total assets. We identified impaired loans, loans secured with other undiversified collateral as well as uncollateralized loans with an outstanding amount higher than CHF 0.5 million as a key area of focus in terms of loan loss provisioning risk: • Loans already impaired exhibit higher inherent risk of impairment and thus require an adequate control environment and enhanced monitoring to ensure detection of further loan loss provisions • Loans secured with other undiversified collateral exhibit a higher inherent risk of impairment due to the collateral likely being more affected by adverse market price movements • Uncollateralized loans higher than CHF 0.5 million inherently bear a higher loss potential in the event of default and therefore require closer monitoring. • Identification and measurement of individual value adjustments for such loans are highly dependent on robust controls and subject to significant managerial judgement *See credit risk management disclosures on page 17 and see notes to the consolidated financial statements on pages 20 and 29.*	We tested the design and operating effectiveness of key controls related to identification of default risk and recognition of loan loss provisions. Substantive procedures included the following: • Tested a sample of loans (including loans not identified as potentially impaired) to form our own assessment whether impairments had been timely and adequately recognized • Compared the valuation of collateral to independent observable market data • Checked whether uncollateralized loans with an outstanding amount higher than CHF 0.5 million were in violation of credit policies or in arrear with payments • Tested whether undiversified collateral is monitored in accordance with established standards • Assessed external valuations and loan loss assumptions applied for mortgages identified as impaired • Assessed level of judgement applied by Management and tested whether recognized provisions were approved in line with internal competencies In our view, the procedures carried out and described above gave us sufficient audit evidence to conclude on the appropriateness of the loan loss provision recognized noting provisions that, overall, were within a reasonable range of expected provision outcomes.

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Bank J. Safra Sarasin Ltd
Report of the statutory auditor
on the consolidated financial statements
for the year ended
December 31, 2017

Key audit matter	*Audit response*
Valuation of debt securities held as financial investments Debt securities intended to be held until maturity represent 7.5% of total assets. Whilst debt securities held to maturity (HTM) are stated at acquisition cost with allocation of premiums or discounts (interest component) over the term of the instrument (accrual method), default risk related changes in value are to be recognised immediately by means of an impairment charge to "Changes in value adjustments for default risks and losses from interest operations". There is a risk that the book value is misstated due to the exertion of significant judgement and usage of assumptions and estimates with regard to the determination of changes in market value resulting from changes in the debtor's credit standing. *See notes to the consolidated financial statements on page 23.*	We tested the design and operating effectiveness of key controls supporting identification, measurement and monitoring of valuation risk of debt securities. Furthermore, we performed the following substantive procedures: • Validation of market values with independent price sources • Assessment of market liquidity based on available trading volume information • Evaluation of impairment test methodology applied • Assessment of year-end impairment test documentation • Assessment of impairments recognized • On the basis of observable market inputs, assessment of Management's fundamental credit analysis performed for issuers with potential impairment indications Overall, in our view and in the context of the inherent degree of judgement required, sufficient audit evidence was obtained to address the risk of valuation and valuations were within a reasonable range of outcomes.

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Bank J. Safra Sarasin Ltd
Report of the statutory auditor
on the consolidated financial statements
for the year ended
December 31, 2017

Key audit matter	*Audit response*
Provisions for legal and litigation risks Provisions due to legal and litigation risk are subject to increased Management judgment. Specifically, we have considered the following areas of focus: • Settlements and resolution of legacy claims • Provisioning for other claims and litigations For exposures identified, significant judgements is needed to assess obligations and assumptions that are inherently subject to the future outcome of legal and regulatory processes. In line with applicable accounting guidelines, the focal point is whether recognised provisions and disclosures made give a true and fair view of probable obligations based on past events and reliable estimates of uncertain amounts and due dates. *See legal and compliance risk management disclosures on page 16 and see notes to the consolidated financial statements on page 29.*	We tested the design and operating effectiveness of key controls over the identification, measurement and disclosure of legal and litigation risks. As part of our substantive procedures, we: • Assessed Management assumptions by means of inquiry and corroboration with available case summaries or detailed evidence • Obtained external confirmations from legal counsels (selection based on known or reported involvement and inspection of recognized legal expenses) • Inspected regulatory correspondence and the complaints log • Reconciled and compared the obtained detailed schedule of provisions to the movements schedule presented in the notes • Assessed provided disclosures for sufficient clarity regarding uncertainties in relation to contingent liabilities and provisions recognised In view of the significant judgements required and information currently available, we determined that sufficient audit evidence was obtained to address the risk of misstated provisions or disclosures for legal and litigation risks.
IT systems and controls over financial reporting We identified IT systems and controls over financial reporting as a key area of focus as the financial accounting and reporting systems are heavily dependent on complex systems and there is a risk that automated procedures and IT dependent manual controls are not designed, implemented and operating effectively. A particular area of focus related to access security, system change control and data centre and network operations.	We tested the design and operating effectiveness of controls that are critical to financial reporting. Furthermore and where necessary, we performed direct substantive tests of certain aspects of IT systems, including access management and segregation of duties. In our view, the combination of tests of key controls and direct substantive tests that we carried out gave us sufficient evidence to enable us to rely on the operation of IT systems for the purposes of our audit.

Deloitte.

Bank J. Safra Sarasin Ltd
Report of the statutory auditor
on the consolidated financial statements
for the year ended
December 31, 2017

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 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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 consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Deloitte AG

Alexandre Buga
Licensed Audit Expert
Auditor in Charge

Sandro Schönenberger
Licensed Audit Expert

Zurich, February 28, 2018