BANQUE PRIVÉE

ESPÍRITO SANTO

Annual Report **2013**

English

Zürich

Board of Directors

Chairman
José Manuel Pinheiro Espírito Santo Silva

Vice Chairman
Jean-Claude Blanc

Directors
Mário Mosqueira do Amaral *(† 3 March 2014)*
António Luís Roquette Ricciardi
Ricardo Espírito Santo Silva Salgado
Alain Nicod
Jean-Baptiste Zufferey
Fernando Moniz Galvão Espírito Santo Silva
Claude Lüthi
Thomas H. Emch
Catarina Salgado Amon
Pierre Fischer

Compensation & Appointments Committee
José Manuel Pinheiro Espírito Santo Silva – *Chairman*
Jean-Claude Blanc
Claude Lüthi

Audit Committee
Jean-Claude Blanc – *Chairman*
Thomas H. Emch
Jean-Baptiste Zufferey

Delegation for Credit Matters
José Manuel Pinheiro Espírito Santo Silva – *Chairman*
Claude Lüthi
Pierre Fischer

Internal Audit
Alexandre Gay

Auditors
KPMG SA

Status: March 2014

Management

Executive Committee

Chief Executive Officer
José Pedro Caldeira

Executive Vice Presidents
Pedro Alves de Carvalho
Stéphane Forestier

Members of the Management

Senior Vice Presidents
Tiago Amaral
Gonzague du Couëdic de Kerérant
Erich Dähler
Michel Eggmann
Juan Carlos Fernandez
Stéphane Haefliger
Francis Mateeson Roncoroni
Adriano Milos
Jean-Marc Nauer
Jean-François Rime
Pascal Stegmann
Carlos Torelló Brugarolas
Nicolas Vetsch
Roberto De Vito

Vice Presidents
Philippe Bourrecoud
José Candal
João Costa
Marco Damizia
Fátima Large
Nuno Pinto Pereira
Vincent Perruchoud
Sandra Schaad
Philippe Schmutz
Valérie Touron
Nicolas Valterio

Executives

Assistant Vice Presidents

Maria Manuel Baraldi
André Braga
Alfredo Chaves
Olivier Cotton
Yves Gilliéron
Leanne Johnston
Ana Paula Koehli
Anna La Torre
Vincent Messina
Olivier Ropraz
Daniel Ryssl
Marc Scholders

Senior Banking Officers

Thomas Bender
David Corke
Véronique Corthésy Özsoy
Maciej Friedlender
François Homberger
Chokri Mejri
Marie-Antoinette Palmisano
Pinella Parisi
Michel Randin
Charles Roberge
Christine Rochat
Erik Rochat
Verena Sframeli
Alice Teixeira Santos

Banking Officers

Pier Franco Carrega
Estela Coutinho
Samuel Cuccagna
Reyes Cuccagna
Ferenc Fuzesi
Raquel Cardoso Gillioz
Iolanda Alves Guerreiro
Catherine Iberg
Vincent Kart
Janelise Lavanchy
Sébastien Michaud
Sylvie Omari
Teresa da Palma
Elham Taillard

Branch & Representative Offices

Portuguese Branch Office

Senior Vice Presidents/Managers

José Pedro Castanheira
Bernardo Guedes

Senior Vice Presidents

Carlos Fernando Calqueiro
Carlos Tito Morais Caiano

Vice Presidents

Maria do Carmo Texeira Bastos
Miguel Furtado Martins
Ana Miranda
Carlos Sarmento
José Azevedo Soares
Sérgio Soares

Assistant Vice Presidents

Joana Esteves
Ana Paula Ribeiro

Zürich Branch Office

Senior Vice President

Michael Lenhardt

Vice Presidents

Doris Ingold
Rui Meireles

Assistant Vice Presidents

Lydia Ortega
Eliane Meier

Portuguese Representative Office

Representative

Bernardo Guedes

Polish Representative Office

Representative

Piotr Gorzelak

Spanish Representative Office

Representative

José Muñoz-Vargas

Message from the Chairman

The 2013 reporting period was a reference year for Banque Privée Espírito Santo in terms of consolidating its strategy. As part of Espírito Santo Financial Group (ESFG), the Bank's primary mission is to manage its clients' financial assets. Diversifying our range of products and services and constantly adapting them to client needs in a rapidly changing regulatory environment constitute the very core of our business.

This is why the Bank created Espírito Santo Wealth Management (ESWM) in Luxembourg, a multibooking platform for wealth management services. After completing its first year of operations in 2013, ESWM now has a dedicated team of 14 employees in Luxembourg and Spain.

At the end of the year, the Bank expanded its activities by acquiring the clientele and the Latin America team of Hyposwiss Privatbank AG in Zurich, with the strategic objective of diversifying the origin of its clients. This acquisition necessitated the opening of a branch in Zurich, thus strengthening the presence of Banque Privée Espírito Santo in Switzerland, where the Group has been established since 1977.

The creation of ESWM and the expansion of business in Switzerland reflect the Bank's strategic vision and its ability to adapt products and services swiftly whenever necessary.

The international network of ESFG and the sophisticated and diverse nature of its service offering, combined with the knowhow acquired in 145 years of business activity, underpin the Group's integrated approach to wealth management.

When we founded Compagnie Financière Espírito Santo in 1977, which subsequently became Banque Privée Espírito Santo, our intention was clear: to offer our clients innovative and high-quality financial services from a Swiss platform that responded to their concerns in a period marked by vicissitudes and challenges.

New challenges have emerged since then. We have mastered them by keeping to the philosophy that has been our hallmark from the outset, i.e. serving our clients with the stamp of quality that typifies us.

One last word in my own name and on behalf of the Board of Directors concerning Mario Mosqueira do Amaral, who died in March 2014. Mario Amaral joined Banco Espírito Santo in Portugal in 1956 and was a partner of inestimable value to the Group ever since. With his long experience in the international arena and as head of Group relations with institutions such as the International Monetary Fund and the World Bank, Mario Amaral was the first Chairman of the Board of Directors of Compagnie Financière Espírito Santo SA when Espírito Santo Group opened an office in Switzerland in January 1977. His international experience was decisive in consolidating the Group's activities and projects, and his unfailingly brilliant contribution was crucial for the current strategy and positioning of Banque Privée Espírito Santo.

José Manuel Pinheiro Espírito Santo Silva
Chairman of the Board of Directors

ESPÍRITO SANTO
Wealth Management

Your Future. **Our Commitment.**

This new subsidiary of Banque Privée Espírito Santo unites the optimal conditions to offer diversified solutions in wealth mangement and invenstment advice to our clients throughout the European Union.

Report of the Board of Directors

The Swiss banking sector has seen far-reaching changes in recent years, not least as a result of the regulations on cross-border activities and restrictions on access to certain markets. In 2012, Banque Privée Espírito Santo created Espírito Santo Wealth Management (ESWM) in Luxembourg with a view to adapting to this new situation. ESWM is a platform designed to provide clients in the European Union with investment advisory and portfolio management services.

ESWM completed its first year of operations at the end of 2013 and opened a subsidiary in Spain (Madrid) early in 2014, thus extending its business activities to another strategic market for the Bank. The global presence of Espírito Santo Financial Group was also put to good use, allowing us to create the very best conditions for offering our clients diversified and integrated wealth management solutions.

Against this backdrop and given the strategic positioning of Espírito Santo Financial Group around the globe, particularly its presence in Latin America, the Bank acquired the clientele and Latin America team of Hyposwiss Privatbank AG in Zurich on 1 December 2013; this led us to open a branch in Zurich.

This operation is part of the strategy to strengthen the Bank's position in Switzerland and the markets where Espírito Santo Group has expertise.

These developments have taken place despite an economic situation marked by the crisis that has hit Europe in recent years. Nevertheless, signs of an economic recovery have emerged in the eurozone since the 3rd quarter of 2013 and at the beginning of 2014, particularly in the peripheral countries.

Banque Privée Espírito Santo registered gross income of CHF 8.9 million in 2013, an increase of 12.84% on 2012. However, the Bank had to step up its valuation adjustments significantly. The increase in provisions chiefly affected loans. New provisions also had to be issued to cover the Bank's share in the Rubik agreements and its participation in the US Department of Justice's programme aimed at settling the tax dispute with the United States. This had an impact on consolidated net income, which fell to CHF 2 million in 2013 compared with CHF 4.9 million in 2012.

Net income for the year was also affected by higher personnel expenses in connection with business development at ESWM in Luxembourg and the absorption of the Hyposwiss team in December 2013.

However, it should be noted that both these operations made a positive contribution to the Bank's commercial activities, which continued to grow. At year-end, assets under management amounted to more than CHF 5.5 billion, an increase of 14.5% compared with 2012. The Portuguese branch also contributed to this gratifying trend, with assets under management increasing by 25% last year.

This result reflects the Bank's commercial prowess, as well as its ability to adapt to an ever more challenging environment.

Banque Privée Espírito Santo has been established in Switzerland since 1977. Its activities have evolved over time in order to adjust to new legislative and regulatory models. Switzerland offers unparalleled conditions of financial stability and neutrality, and is therefore the ideal platform for us to continue providing our clients with top-flight financial services.

The Bank is part of Espírito Santo Group, whose origins go back 145 years. The Group shows a great capacity to adapt to new realities, and great staying power in the face of financial and political crises. We are convinced that these qualities are part of our DNA.

We shall therefore continue to serve our clients with the same dedication that has guided us from the outset. We thank them wholeheartedly for their trust and loyalty.

A final word of thanks must go to our management and our employees for their hard work and professionalism. We would also like to extend a warm welcome to the Hyposwiss team that joined the Bank at the end of 2013. We know that the values that have guided us for over 145 years will be a source of inspiration.

The Board of Directors

Analysis of the Consolidated Financial Statements

The Bank succeeded in increasing its gross income by 12.84% despite a fragile economic recovery and the additional costs incurred in adapting its business model to new requirements in a sector undergoing rapid changes. Net income, on the other hand, was seriously impacted by the various provisions that had to be set aside, particularly on the credit front, as well as for the Bank's share in the Rubik agreements and its participation in the US Department of Justice's programme aimed at settling the tax dispute with the United States.

The accounts of our subsidiary, Espírito Santo Wealth Management SA, were consolidated with those of the parent company for the first time. As a result, the comparative financial statements for 2012 have been restated.

Balance sheet

Total assets amounted to CHF 866.86 million, an increase of 40.0% compared with 2012. This strong increase should be seen in relation to the acquisition of a client portfolio from Hyposwiss Privatbank AG on 1 December 2013. The very high liquidity component of our assets, with cash holdings and amounts due from banks accounting for 55.38% of the total, reflects the continuation of a prudent asset management policy. An analysis of the main line items calls for the following comments:

Assets

- the increase in our cash holdings, from CHF 74.94 million to CHF 127.53 million, is attributable to the rise in deposits with the Swiss National Bank. It reflects the transfer of part of the deposits previously held with systemically important financial institutions (SIFIs), following the introduction early in 2013 of new capital adequacy rules aimed at restricting exposure to these banks to 25% of equity capital;

- the moderate rise in amounts due from customers, from CHF 270.44 million to CHF 292.19 million, attests to our prudent credit policy in a still uncertain economic environment;

- the growth in financial investments, from CHF 65.88 million to CHF 67.40 million, is the result of our determination to pursue the more active balance-sheet management policy that we initiated in 2011. This policy consists of acquiring short- and medium-term bonds issued by prime borrowers offering better returns than interest rates on the interbank market;

- the increase in tangible fixed assets and intangible assets, from CHF 7.30 million to CHF 12.24 million, corresponds to the difference between investments, including goodwill arising from the acquisition of a client portfolio from Hyposwiss, and – directly related thereto – the opening of a branch in Zurich, and the depreciation charge for the year valued conservatively;

- the rise in other assets, from CHF 2.72 million to CHF 3.90 million, is due to the change in positive replacement values of forward foreign exchange contracts, a factor which also affected other liabilities (see below).

Liabilities

- the increase in amounts due to banks, from CHF 72.17 million to CHF 96.34 million, reflects exclusively the momentary growth in sight deposits of certain counterparties;

- the substantial growth in other amounts due to customers, from CHF 425.36 million to CHF 642.01 million, is mainly due to the acquisition of the aforementioned portfolio. Apart from that factor, this situation once again highlights our clients' preference for cash, given their continued reluctance to take higher investment risks and the persistently low returns on term deposits;

- the rise in valuation adjustments and provisions, from CHF 11.64 million to CHF 29.10 million, is due to the increase in credit provisions and the issue of new provisions concerning the Bank's share in the Rubik agreements and our participation in the US Department of Justice's programme aimed at settling the tax dispute with the United States;

- the increase in other liabilities, from CHF 8.65 million to CHF 9.21 million, is explained by the change in negative replacement values of forward forex contracts, as was the case for positive replacement values on the assets side (see above).

Off balance sheet

The moderate rise in fiduciary transactions, from CHF 784.33 million to CHF 850.50 million, mirrors our clients' preference for short-term investments.

Income statement

Gross income was up 12.8% to CHF 8.95 million. This figure may basically be broken down as follows:

Income

- stable net interest income of CHF 5.75 million, compared with CHF 5.73 million;

- limited increase in income from commission and service fee activities, from CHF 39.24 million to CHF 40.87 million, notably as a result of the rise in assets under management and stock market trading volumes relative to 2012;

- stable income from trading operations of CHF 3.65 million, compared with CHF 3.63 million;

- increase in other ordinary income from services provided for other Group entities, from CHF 4.89 million to CHF 5.82 million.

Expenses

- measured increase in personnel expenses, from CHF 30.32 million to CHF 31.16 million, mainly as a result of the expansion of our subsidiary in Luxembourg;

- slight rise in other operating expenses, from CHF 15.28 million to CHF 15.94 million, owing to the combined effects of controlled increases in outsourcing and consultancy fees, IT and communication costs, and a reduction in commercial expenses.

Total operating expenses amounted to CHF 47.10 million, compared with CHF 45.60 million.

Depreciation of fixed assets declined marginally to CHF 1.69 million.

Extraordinary income of CHF 13.18 million consists mainly of a release of reserves for general banking risks in the amount of CHF 13.13 million.

Valuation adjustments, provisions and losses amounted to CHF 21.61 million, taking into account primarily allocations of CHF 6.6 million to valuation adjustments and provisions for other operating risks, and CHF 14.7 million to provisions for default risk.

Following these adjustments, net income came in at CHF 1.96 million compared with CHF 4.89 million.

At end-2013, our Tier 1 core capital totalled CHF 70.38 million. In accordance with applicable laws and regulations and taking the other components into account, the Bank's eligible capital stood at CHF 87.89 million.

Consolidated Financial Statements and Notes 2013

Consolidated Balance Sheet at 31 December

CHF	2013	*2012
Assets		
Cash	**127 525 260**	74 939 512
Due from banks	**352 566 928**	186 242 624
Due from customers	**292 194 209**	270 439 993
Securities and precious metal trading portfolios	**4 929 336**	4 166 554
Financial investments	**67 398 832**	65 884 506
Tangible fixed assets	**7 649 798**	7 304 438
Intangible assets	**4 590 000**	—
Accrued income and prepaid expenses	**6 115 475**	7 657 665
Other assets	**3 895 000**	2 716 090
Total assets	**866 864 838**	619 351 382
Total due from Group entities and qualified shareholders	**2 079 901**	1 198 765
Liabilities		
Due to banks	**96 336 578**	72 174 544
Due to customers, other	**642 011 994**	425 356 923
Accrued expenses and deferred income	**14 443 899**	9 897 828
Other liabilities	**9 209 604**	8 650 125
Valuation adjustments and provisions	**29 098 874**	11 642 345
Reserves for general banking risks	**6 828 900**	19 961 000
Share capital	**30 000 000**	30 000 000
Retained earnings	**36 976 958**	36 783 222
Net income	**1 958 031**	4 885 395
Total liabilities	**866 864 838**	619 351 382
Total subordinated liabilities	**24 550 420**	24 150 000
Total due to Group entities and qualified shareholders	**85 980 815**	76 226 002
Off-balance-sheet transactions		
Contingent liabilities	**117 538 699**	124 577 908
Irrevocable commitments	**1 396 000**	986 000
Derivative financial instruments		
· Positive replacement values	**2 462 973**	2 021 439
· Negative replacement values	**2 064 787**	1 765 327
· Underlying value	**223 635 296**	178 181 523
Fiduciary transactions	**850 506 547**	784 332 092

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

Consolidated Income Statement

CHF	2013	*2012
Income and expenses arising from ordinary banking activities		
Net interest income		
Interest and discount income	**7 860 669**	9 003 993
Interest and dividend income from trading portfolios	**59 465**	25 365
Interest and dividend income from financial investments	**1 139 572**	1 072 706
Interest expense	**–3 327 100**	–4 349 113
	5 732 606	5 752 950
Net fee and commission income		
Fee and commission income from lending activities	**1 756 907**	1 854 814
Fee and commission income from securities trading and investments	**38 642 812**	35 214 219
Fee and commission income from other services	**4 761 015**	5 313 424
Fee and commission expense	**–4 287 132**	–3 138 467
	40 873 602	39 243 990
Net trading income	**3 631 624**	3 646 834
Other ordinary income		
Miscellaneous ordinary income	**6 429 033**	5 449 929
Miscellaneous ordinary expenses	**–613 955**	–554 957
	5 815 078	4 894 972
Operating expenses		
Personnel expenses	**–31 155 424**	–30 324 259
Other operating expenses	**–15 942 262**	–15 278 456
	–47 097 686	–45 602 715
Gross income	**8 955 224**	7 936 031
Depreciation of fixed assets	**–1 698 401**	–1 756 344
Valuation adjustments, provisions and losses	**–21 607 371**	–1 921 785
Extraordinary income	**13 182 486**	2 178 197
Extraordinary expenses	**—**	—
Taxes	**3 126 093**	–1 550 704
Net income for the year	**1 958 031**	4 885 395

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

Notes to the Consolidated Financial Statements

at 31 December 2013

1. Overview of operations and headcount

The Banque Privée Espírito Santo group focuses primarily on asset management and investment advice for private clients, together with related transactions such as lombard loans, securities and foreign exchange trading, and payment transfers. It conducts these activities from its headquarters in Pully (Lausanne), a branch in Zurich (opened in December 2013), an office in Geneva, a branch in Portugal (Lisbon and Porto) as well as two representative offices in Poland and Spain (one in Warsaw and another in Madrid). A subsidiary was created in Luxembourg at the end of 2012 under the name of Espírito Santo Wealth Management (Europe) SA, a company governed by Luxembourg law, which was authorized to establish itself as a Financial Sector Professional *(Professionel du Secteur Financier*, or PSF). In this capacity, it provides clients in the European Union with a range of prime services. Within the meaning of Circular 08/7 (outsourcing) issued by the Swiss Financial Market Supervisory Authority (FINMA), the Bank entrusted Sterci SA in June 2012 with the technical operation of interbank messaging systems (SIC, SWIFT and SECOM) under a detailed service contract. In order to ensure the confidentiality of transactions, this company's employees are subject to banking secrecy. Since 2011, the Bank's branch in Portugal has also outsourced the printing and dispatch of bank advices and portfolio estimates for clients to a company domiciled in that country.

The headcount at the end of the year, expressed as the number of full-time equivalents, was 171 (2012: 154).

2. Presentation of financial statements Accounting and valuation principles Risk management

Basis of presentation

The consolidated financial statements have been drawn up in accordance with the regulations applicable in Switzerland, i.e. the provisions of the Swiss Code of Obligations, the Federal Act on Banks and its implementing ordinance, as well as the rules governing the preparation of financial statements for banks and securities traders (DEC-FINMA).The consolidated financial statements provide a true and fair view of the assets, financial position and results of operations.The Board of Directors has taken the necessary measures to apply the requirements in the Code of Obligations concerning an internal control system for the preparation and presentation of the consolidated financial statements.

The consolidated financial statements comprise the accounts of the parent company and its subsidiary Espírito Santo Wealth Management (Europe) SA in Luxembourg. This subsidiary is fully owned and fully consolidated.

Banque Privée Espírito Santo is publishing its first consolidated financial statements for the 2013 financial year; the comparative statements for 2012 have therefore not been audited.

Accounting and valuation principles

Recording of transactions
All transactions are recorded at the date of conclusion (transaction date) and are valued from that date in accordance with the principles set out below.

Translation of foreign currencies
The financial statements are presented in Swiss francs. Assets and liabilities expressed in foreign currencies are translated into Swiss francs at the average exchange rate prevailing on the balance-sheet date. Income and expenses are translated at the exchange rate prevailing on the recording date.

The main exchange rates used for translation purposes at 31 December were as follows:

	at 31.12.2013	at 31.12.2012
USD	**0.8931**	0.9151
EUR	**1.2275**	1.2075

	average for 2013	average for 2012
EUR	**1.2309**	1.2054

The assets and liabilities of our branch offices are translated into Swiss francs at the average exchange rate prevailing on the balance-sheet date, while income-statement items are translated at the average exchange rate for the financial year. Translation differences are carried under "Net trading income".

The foreign currency positions held by our subsidiary are translated into Swiss francs at the average exchange rates prevailing on the balance-sheet date, while income-statement items are translated at the average exchange rate for the year.

Cash, amounts due from and to banks and customers

These items are recorded in the balance sheet at their nominal value. Identified and foreseeable risks give rise to valuation adjustments under "Valuation adjustments and provisions".

Securities and precious metal trading portfolios

Positions in securities and precious metal trading portfolios are calculated at fair value, with reference to prices quoted on a liquid market. When it is not possible to establish fair value, positions are valued and booked at the lower of cost or market. Realized gains and losses arising from purchases and sales of these positions, as well as unrealized gains and losses arising from changes in fair value, are reported under "Net trading income".

Financial investments

Debt securities are intended to be held until maturity and are carried at cost, with premiums or discounts (rate components) amortized over the term of the investment. Any changes in value dictated by solvency are recorded immediately.

Tangible fixed assets and intangible assets

Tangible fixed assets and intangible assets are carried at their acquisition value. They are depreciated using the constant percentage method with different rates for different categories, except for artworks, which are periodically valued but not depreciated.

Contingent liabilities

This type of liability is recorded under off-balance-sheet transactions at nominal value. Provisions are established for identified and foreseeable risks, and are booked to "Valuation adjustments and provisions".

Valuation adjustments and provisions

Impaired loans, i.e. loans for which the borrower is unlikely to meet its future commitments, are valued individually and the depreciation in value is covered by valuation adjustments.

The depreciation in value is equivalent to the difference between the carrying amount of the loan and the amount which the Bank can expect to recover, taking into account the counterparty risk and the net liquidation value of any risk mitigants.

Lump-sum provisions are also established to cover general risks inherent in banking operations.

Provisions and valuation adjustments are recorded as liabilities under "Valuation adjustments and provisions".

Reserves for general banking risks

Reserves for general banking risks are valued net of deferred taxes.

Pension liabilities

In compliance with the amended version of Swiss GAAP RPC 16, any economic effects relating to pension liabilities are determined, inter alia, on the basis of the pension funds' annual financial statements which are prepared in accordance with RPC 26 standards.

Taxes

Taxes that have a bearing on results, i.e. income tax and capital tax, are calculated in accordance with tax regulations and reported as an expense for the accounting period in which the income was generated.

Deferred taxes

Deferred taxes are calculated at the rates in effect at the closing date. Deferred claims on loss carryovers are not capitalized.

Derivative financial instruments

The Bank does little business in this area. It mainly deals in futures contracts for the account of clients. However, it may use these instruments for its own account in connection with treasury management operations, principally for hedging purposes.

On the balance sheet, positive replacement values are entered under "Other assets" and negative replacement values under "Other liabilities". The same applies to the debit or credit balance of the compensatory account.

Replacement values of contracts traded off-exchange for the account of clients are recorded on the balance sheet even if they are hedged.

Risk analysis

The Board of Directors has analysed the main risks to which the Bank is exposed. This analysis is based on the data and tools which have been put in place for risk management purposes, covering market risk, credit risk, interest rate risk, operating risk and legal risk. In this respect, the Board has taken account of the internal control system implemented with a view to managing and reducing risk.

Risk management

Risk management is based on the limits fixed by the Board of Directors for each type of risk with which the Bank is confronted. These limits are reviewed periodically and are kept under constant surveillance.

Risk control is ensured independently by the Risk Management Unit, which submits regular reports to the Executive Committee, the Audit Committee and the Board of Directors. This Unit is responsible for monitoring the risks set out below.

Interest rate risk

Overall, the Bank has little exposure to the risk of interest rate fluctuations due to the structure of its assets and refinancing tools.

Gap analyses and simulations of interest rate fluctuations are performed periodically to evaluate interest rate risk. Based on these simulations, the Board of Directors has fixed maximum tolerance limits for loss exposure in order to control interest rate risk.

Market risk

Trading positions in currencies and securities are the major components of market risk. They are subject to a system of limits involving regular checks. Given the limited volume of these operations, the Bank uses the "de minimis" approach for calculating capital adequacy requirements.

Credit risk

For treasury management purposes, the Bank has drawn up a list of correspondents authorized by the Board of Directors and comprising only first-class institutions, most of which have credit ratings equal to or higher than investment grade.

In the course of its business activities, the Bank may grant its clients credits and guarantees, principally in the form of lombard loans. In most cases, they are secured by liquid assets deposited with the Bank and pledged in its favour. Subject to the specific points mentioned under 3.1 "Schedule of collateral for loans and off-balance-sheet transactions", these assets usually consist of cash deposits, equities and bonds that are regularly listed or for which there is a representative market, investment funds or other securities.

Credit risk management meets strict criteria in terms of cover margins, distribution, borrower quality and collateral requirements. Limits are approved on the basis of ceilings for the different hierarchical levels. Collateral is measured at market value and weighted by margins fixed by the Board of Directors according to the type and quality of the investment. The loan-to-value ratios applied, which range between 30% and 100%, may be lowered by the Credit Committee as a precaution and particularly in response to market developments.

With the aim of identifying possible unsecured or impaired loans, the suitability of collateral is periodically monitored by the Credit Department under the supervision of the Credit Committee. IT tools are used for this purpose. Unsecured loans or those with insufficient coverage are reviewed monthly by this Committee. Should margins no longer be sufficient, the Bank asks its debtor to provide additional collateral and, if necessary, realizes the pledged assets. The Committee is empowered to realize all or part of the collateral if the client has not met its commitments to the Bank. Various lump-sum provisions are determined under the Bank's provisioning policy, in particular for the Portuguese branch with respect to banking regulations in that country, and also in Switzerland when the pledge value of the collateral is less than 90% of the total amount of receivables and contingent liabilities. Where appropriate, individual provisions are issued for the receivables if the collateral is no longer sufficient or the borrower is no longer able to repay the loan. The Bank may also set aside specific provisions if it sees fit to do so.

Liquidity risk

The Bank applies the relevant legal provisions for the control of this type of risk.

Operating risk

Operating risk is defined as "the risk of direct or indirect loss resulting from inadequate or faulty procedures, the human factor, systems, or external events". This risk is contained by an internal system of rules and guidelines for control and organization.

Compliance and legal risk

The Compliance Officers and the Legal Department ensure that the Bank complies with the rules and regulations in effect, as well as with the due diligence agreement binding upon financial intermediaries. They also ensure that internal directives are brought into line with the new legal and regulatory provisions.

The Internal Audit Department regularly monitors the Bank's control system and reports its findings to the Board of Directors via the Audit Committee.

3. Notes to the consolidated balance sheet

3.1 Schedule of collateral for loans and off-balance-sheet transactions

CHF 000	Mortgage collateral	Other collateral	Unsecured	Total
Loans				
Due from customers	—	287 281	4 913	292 194
Total 2013	**—**	**287 281**	**4 913**	**292 194**
Total 2012*	—	268 488	1 952	270 440
Off-balance-sheet				
Contingent liabilities	—	117 035	504	117 539
Irrevocable commitments	—	—	1 396	1 396
Total 2013	**—**	**117 035**	**1 900**	**118 935**
Total 2012*	—	123 875	1 689	125 564

Of the CHF 404.3 million shown as "Other collateral" in the above schedule, CHF 47.0 million (or 11.6%) represents unlisted financial instruments (Notes, fiduciary investments, equities) issued by Espírito Santo International SA, an unaudited company registered in Luxembourg with equity holdings in the financial sector (Espírito Santo Financial Group SA) and the non-financial sector (Rio Forte Investments SA). These financial instruments are carried at nominal value for Notes and fiduciary investments or, in the case of equities, at the market value determined within the Group and used for over-the-counter transactions. For this specific exposure, the Bank has set aside a provision of CHF 1 million based on an analysis of the probability of default.

CHF 000	Gross amount	Estimated realization value of collateral	Net exposure	Individual valuation adjustments
Impaired loans				
Total 2013	**31 744**	**13 490**	**18 254**	**18 254**
Total 2012*	14 283	13 722	561	561

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

3.2 Securities and precious metal trading portfolios, financial investments and equity holdings

CHF 000	2013	*2012
Securities and precious metal trading portfolios		
Debt securities (unlisted)	4 781	3 903
Equity securities	148	64
Other securities	—	200
Total	**4 929**	4 167
· of which securities eligible for repurchase agreements in accordance with liquidity regulations	—	—
Financial investments		
Debt securities to be held to maturity	67 399	65 885
Total	**67 399**	65 885
· of which securities eligible for repurchase agreements in accordance with liquidity regulations	26 750	27 756
Fair value	**67 756**	66 393

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.2.1 Scope of consolidation

CHF/EUR 000	Capital	Stake	2013 Book value	*2012 Book value
Equity holdings without market value				
ES Wealth Management (Europe) SA, Luxembourg – Financial Advice	EUR 1 000	100 %	CHF 1 217	301

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.3 Fixed assets

CHF 000	*Acquisition cost	Accumulated depreciation	Book value end-2012	2013 Additions	Disinvest-ments	Depreciation	Book value end-2013
Majority shareholdings	—	—	301	916	—	—	**1 217**
Tangible fixed assets							
Other tangible fixed assets	48 558	41 254	7 304	1 965	—	1 619	**7 650**
Total tangible fixed assets	**48 558**	**41 254**	**7 304**	**1 965**	**—**	**1 619**	**7 650**
Goodwill	—	—	—	4 670	—	80	**4 590**
Total intangible assets	**—**	**—**	**—**	**4 670**	**—**	**80**	**4 590**
Fire insurance value of other tangible fixed assets			14 739				**14 764**
Future leasing terms arising from operational leasing			125				**63**

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.4 Other assets and liabilities

CHF 000	2013 Other assets	2013 Other liabilities	*2012 Other assets	*2012 Other liabilities
Replacement values of derivative financial instruments	2 463	2 065	2 021	1 765
Miscellaneous	1 432	7 145	695	6 885
Total	**3 895**	**9 210**	2 716	8 650

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.5 Assets pledged or assigned or with reservation of title

CHF 000	2013 Book value end-2013	2013 Effective liabilities	*2012 Book value end-2012	*2012 Effective liabilities
Due from banks	**11 762**	**—**	7 131	—
Financial investments	**26 750**	**—**	27 756	—
Total	**38 512**	**—**	34 887	—

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.5.1 Securities lending and borrowing

CHF 000	2013	*2012
Fair value of securities received as collateral in connection with the loan of securities for which an unrestricted right of subsequent pledge was granted	**1 646**	1 795
· of which fair value of securities deposited with third parties	**1 646**	1 795

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.6 Liabilities to own occupational pension funds

The Bank's liabilities to the *Fondation de prévoyance du personnel* (the Fund) amounted to CHF 3 510 603 at 31 December 2013 (2012: CHF 650 000). They take the form of credit balances on current accounts and term deposits held by the Fund with the Bank.

Staff of Banque Privée Espírito Santo SA are insured with the Fondation de prévoyance Espírito Santo. The Fund grants pension benefits in excess of the minimum legal requirements. It also manages the employee benefit plans of three sister companies established in Switzerland. As a semi-independent pension institution, the Fund fully reinsures the risks of disability, death and longevity when a retired member chooses to receive a life annuity instead of a lump-sum payment.

The Bank had no economic benefits or liabilities in respect of the Fund within the meaning of Swiss RPC 16 at 31 December 2013. According to the most recent accounts at 31 December 2013, the cover rate was 112.59%, which represents a surplus of CHF 5 812 874. The Bank's contributions for the 2013 financial year in the amount of CHF 2 081 227 were fully remitted to the Fund.

(The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.)

3.7 Valuation adjustments and provisions, reserves for general banking risks and overview of their movements during the financial year

CHF 000	*Balance, end-2012	Specific releases	Changes in allocation (new allocations)	Recoveries, overdue interest, exchange differences	New provisions charged to income statement	Releases credited to income statement	Balance, end-2013
							2013
Provisions for deferred taxes	5 879	—	—	—	—	3 868	2 011
Valuation adjustments and provisions for default risk (collection and country risks)	5 593	—	—	—	14 700	—	20 293
Other provisions	170	—	—	—	6 625	—	6 795
Total valuation adjustments and provisions shown on balance sheet	**11 642**	**—**	**—**	**—**	**21 325**	**3 868**	**29 099**
Reserves for general banking risks	19 961	—	—	—	—	13 132	6 829

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

The increase in valuation adjustments and provisions is due to the strengthening of credit provisions and the issue of new provisions relating to the Bank's share in the Rubik agreements, as well as its participation in the US Department of Justice's programme aimed at settling the tax dispute with the United States.

3.8 Capital structure and shareholders with more than 5% of voting rights

Capital structure

	2013			**2012		
	Total nominal value CHF 000	Number of shares	Capital qualifying for dividends CHF 000	Total nominal value CHF 000	Number of shares	Capital qualifying for dividends CHF 000
Share capital	**30 000**	**30 000**	**30 000**	30 000	30 000	30 000

Shareholders and shareholder groups with voting right agreements

	2013		**2012	
	Total nominal value CHF 000	Stake as %	Total nominal value CHF 000	Stake as %
Espírito Santo Financière SA, Luxembourg (ESFIL) *	**30 000**	**100.00**	29 800	99.33

***The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

** ESFIL is held by Espírito Santo Financial Group (ESFG), Luxembourg, a company listed on the Lisbon, London and Luxembourg Stock Exchanges. In addition to 50.54% owned by the public, 39.43% of the capital of ESFG is held by Espírito Santo International SA (ESI SA) and 10.03% by Espírito Santo Irmãos SGPS SA, holding companies controlled by the Espírito Santo family.*

In the first quarter of 2014, Espírito Santo Group carried out a restructuring programme to strengthen the transparency, governance and financial solidity of its non-financial areas of operation. The known and identified impacts of these restructuring measures were duly taken into account for the closure of the 2013 financial statements.

3.9 Shareholders' equity

CHF 000	
Shareholders' equity at beginning of year	
Paid-in share capital	30 000
Retained earnings	36 782
Reserves for general banking risks	19 961
Net income	4 885
Translation difference	1
Total (before allocation of income)	**91 629**

Shareholders' equity at end of year	
– Withdrawals from reserves	– 13 132
– Dividends and other distributions drawn from income for the previous year	– 4 700
+ Translation difference	8
+ Net income for the year	1 958
Total (before allocation of income)	**75 763**

of which	
Paid-in share capital	30 000
Retained earnings	36 967
Reserves for general banking risks	6 829
Net income	1 958
Translation difference	9

3.10 Maturity structure of current assets and borrowed funds

CHF 000	At sight	Callable	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Fixed assets	Total
Current assets								
Cash	127 525	—	—	—	—	—	—	127 525
Due from banks	319 357	—	33 210	—	—	—	—	352 567
Due from customers	—	53 348	132 296	106 550	—	—	—	292 194
Securities and precious metal trading portfolios	4 929	—	—	—	—	—	—	4 929
Financial investments	—	—	15 121	13 537	38 592	149	—	67 399
Total 2013	**451 811**	**53 348**	**180 627**	**120 087**	**38 592**	**149**	**—**	**844 614**
Total 2012*	221 391	52 818	157 690	128 744	40 668	138	—	601 449
Borrowed funds								
Due to banks	61 677	—	33 064	1 596	—	—	—	96 337
Due to customers, other	556 978	—	20 482	31 810	32 742	—	—	642 012
Total 2013	**618 655**	**—**	**53 546**	**33 406**	**32 742**	**—**	**—**	**738 349**
Total 2012*	356 203	—	52 975	63 130	25 448	—	—	497 532

The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.

3.11 Amounts due from and to related companies and loans to governing bodies

CHF 000	2013	*2012
Due from Espírito Santo Group banks	20 835	33 709
Due from other Espírito Santo Group companies	43	41
Total	**20 878**	33 750
Due to Espírito Santo Group banks	50 077	82 777
Due to other Espírito Santo Group companies	2 054	2 608
Total	**52 131**	85 385

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

The Bank has sight deposits or short-term receivables on its books within the overall credit limit provided for Espírito Santo Group banks; they are for liquidity management purposes.

Amounts due from and to the Group's non-banking entities are in the form of balances on current accounts opened by these entities at the Bank.

Amounts due from and to the Bank's qualified shareholders, even if the latter rank as governing bodies, are not entered under this heading. They are shown off-balance-sheet, in accordance with the FINMA directives on provisions governing the preparation of financial statements (Circular 08/2).

3.12 Breakdown of assets and liabilities between Switzerland and other countries

	2013		*2012	
CHF 000	Switzerland	Other countries	Switzerland	Other countries
Assets				
Cash	**125 843**	**1 682**	74 138	801
Due from banks	**190 165**	**162 401**	78 775	107 467
Due from customers	**8 210**	**283 984**	7 442	262 998
Securities and precious metal trading portfolios	**153**	**4 776**	—	4 167
Financial investments	**1 536**	**65 863**	—	65 885
Tangible fixed assets	**7 300**	**350**	7 115	189
Intangible assets	**4 590**	**—**	—	—
Accrued income and prepaid expenses	**3 726**	**2 390**	5 083	2 575
Other assets	**3 010**	**886**	1 359	1 357
Total	**344 533**	**522 332**	173 912	445 439
Liabilities				
Due to banks	**11 010**	**85 327**	18 185	53 990
Due to customers, other	**63 857**	**578 155**	58 624	366 733
Accrued expenses and deferred income	**12 438**	**2 006**	8 454	1 444
Other liabilities	**7 565**	**1 644**	6 927	1 723
Valuation adjustments and provisions	**28 696**	**403**	11 314	328
Reserves for general banking risks	**6 829**	**—**	19 961	—
Share capital	**30 000**	**—**	30 000	—
Retained earnings	**36 977**	**—**	36 783	—
Net income/loss for the year	**1 073**	**885**	4 092	793
Total	**198 445**	**668 420**	194 339	425 011

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

3.13 Geographical breakdown of assets

	2013		*2012	
	CHF 000	As %	CHF 000	As %
Europe				
Switzerland	**344 533**	**39.74**	173 912	28.08
Portugal	**143 212**	**16.52**	158 405	25.57
Belgium	**54 172**	**6.25**	33 490	5.41
France	**12 650**	**1.46**	14 698	2.37
Spain	**11 410**	**1.32**	6 879	1.11
United Kingdom	**35 019**	**4.04**	23 622	3.81
Italy	**112**	**0.01**	6	0.00
Luxembourg	**8 275**	**0.95**	3 937	0.01
Other European countries	**32 746**	**3.78**	49 892	8.05
North America/Caribbean				
United States	**57 940**	**6.68**	37 320	6.03
Caribbean/Panama	**96 801**	**11.17**	81 694	13.19
Other North American countries	**1 800**	**0.21**	1 557	0.25
South America				
Brazil	**11 063**	**1.28**	7 530	1.22
Other South American countries	**13 917**	**1.61**	1 879	0.30
Asia/Middle East				
Singapore	**13 586**	**1.57**	13 716	2.21
United Arab Emirates	**18 684**	**2.16**	427	0.07
Other Asian and Middle East countries	**1 384**	**0.16**	2 361	0.38
Other countries	**9 561**	**1.09**	8 026	1.30
Total	**866 865**	**100.00**	619 351	100.00

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

3.14 Currency structure of balance sheet

CHF 000	CHF	EUR	USD	JPY	Other	Total
Assets						
Cash	125 596	1 886	23	—	20	127 525
Due from banks	26 068	85 964	210 988	399	29 148	352 567
Due from customers	8 608	195 043	83 278	117	5 148	292 194
Securities and precious metal trading portfolios	643	4 225	61	—	—	4 929
Financial investments	25 720	36 320	5 359	—	—	67 399
Tangible fixed assets	7 300	350	—	—	—	7 650
Intangible assets	4 590	—	—	—	—	4 590
Accrued income and prepaid expenses	3 898	1 848	370	—	—	6 116
Other assets	3 130	730	30	—	5	3 895
Total	**205 553**	**326 366**	**300 109**	**516**	**34 321**	**866 865**
Delivery claims arising from forward transactions	8 133	124 058	52 104	5 260	34 080	223 635
Total	**213 686**	**450 424**	**352 213**	**5 776**	**68 401**	**1 090 500**
Liabilities						
Due to banks	12 228	44 914	30 743	20	8 432	96 337
Due to customers, other	29 221	327 095	262 009	570	23 117	642 012
Accrued expenses and deferred income	12 130	2 111	203	—	—	14 444
Other liabilities	5 927	580	2 703	—	—	9 210
Valuation adjustments and provisions	28 696	403	—	—	—	29 099
Reserves for general banking risks	6 829	—	—	—	—	6 829
Share capital	30 000	—	—	—	—	30 000
Retained earnings	36 976	—	—	—	—	36 976
Net income / loss for the year	1 073	885	—	—	—	1 958
Total	**163 080**	**375 988**	**295 658**	**590**	**31 549**	**866 865**
Delivery commitments arising from forward transactions	57 223	74 854	51 960	5 524	34 075	223 635
Total	**220 303**	**450 842**	**347 618**	**6 114**	**65 624**	**1 090 500**
Net position by currency	**–6 617**	**–418**	**4 595**	**–338**	**2 777**	**–0**

4. Notes to off-balance-sheet transactions

4.1 Contingent liabilities and irrevocable commitments

CHF 000	2013	*2012
Contingent guarantees	117 539	124 578
Irrevocable commitments	1 396	986
Total	**118 935**	125 564

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

4.2 Open positions in derivative financial instruments at year-end

	Trading instruments			Hedging instruments		
CHF 000	Positive replacement values	Negative replacement values	Underlying value	Positive replacement values	Negative replacement values	Underlying value
Rate instruments						
Swaps	—	—	—	—	—	—
Foreign exchange						
Forward contracts	2 316	2 065	174 534	—	—	—
Swaps	147	—	49 101	—	—	—
Total 2013	**2 463**	**2 065**	**223 635**	**—**	**—**	**—**
Total 2012*	2 021	1 765	178 181	—	—	—

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

No netting agreements were recorded at 31 December 2013.

4.3 Fiduciary transactions

CHF 000	2013	*2012
Fiduciary deposits with third-party banks	**25 214**	21 571
Fiduciary deposits with banks and companies related to the Espírito Santo Group	**792 811**	724 344
Fiduciary loans and other fiduciary transactions	**32 481**	38 417
Total	**850 506**	784 332

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

4.4 Assets under management

CHF 000	2013	*2012
Private clients		
Assets held by collective investment vehicles under own management	**87 119**	94 025
Assets under discretionary management agreements	**743 805**	565 915
Other assets	**3 912 179**	3 623 389
Institutional clients		
Other assets	**839 132**	609 513
Total assets (incl. double-counted)	**5 582 235**	4 892 842
of which double-counted	**87 079**	94 007
Net new money	**660 491**	15 912

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

The assets listed above are held or managed for investment purposes on behalf of both private and institutional clients. They mostly consist of customer deposits in the form of current account balances, term deposits, fiduciary investments and all duly valued assets.

Assets held by collective investment vehicles under own management are included in the table.

Custody-only assets are not shown.

Deposits and withdrawals of funds include inflows and outflows of securities and new money.

Debit and credit interest, the granting and repayment of loans, and changes in exchange rates and market prices of securities are not taken into account.

Deposits and withdrawals are recorded and valued in CHF at the exchange rate in effect on the transaction date.

4.5 Litigation and other possible disputes

Litigation

Two actions brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC against the Bank and numerous other financial institutions are still pending in New York courts.

The Bank is contesting these actions on both procedural grounds and on the merits, and has taken measures to defend and protect its interests. As neither the probability of a payment nor the amount involved can be reliably estimated at present, the Bank has not set aside a provision.

5. Notes to the income statement

5.1 Analysis of net trading income

CHF 000	2013	*2012
Foreign currencies and precious metals	**3 103**	3 229
Securities	**529**	418
Total	**3 632**	3 647

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

5.2 Analysis of personnel expenses

CHF 000	2013	*2012
Remuneration	**24 398**	23 669
Social insurance contributions	**1 950**	1 954
Pension fund contributions	**2 335**	2 191
Employee incentive plan	**560**	500
Other personnel expenses	**1 912**	2 011
Total	**31 155**	30 324

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

5.3 Analysis of other operating expenses

CHF 000	2013	*2012
Premises, equipment	**3 593**	3 346
Information technology / communications	**4 173**	3 742
Commercial expenses	**2 079**	2 034
External consultancy	**5 138**	5 383
Miscellaneous operating expenses	**959**	774
Total	**15 942**	15 279

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

5.4 Income and expenses arising from ordinary banking activities, broken down by Swiss and foreign origin

CHF 000	2013 Swiss	2013 Foreign	*2012 Swiss	*2012 Foreign
Net interest income				
Interest and discount income	**6 864**	**1 484**	7 477	1 995
Interest and dividend income from trading portfolios	**6**	**53**	25	—
Interest and dividend income from financial investments	**604**	**535**	548	524
Interest expense	**–2 560**	**–1 253**	–3 166	–1 650
Total	**4 914**	**819**	4 884	869
Net fee and commission income				
Fee and commission income from lending activities	**1 697**	**60**	1 766	89
Fee and commission income from securities trading and investments	**34 882**	**5 471**	32 875	2 339
Fee and commission income from other services	**4 744**	**17**	5 283	30
Fee and commission expense	**–5 982**	**–16**	–3 128	–10
Total	**35 341**	**5 532**	36 796	2 448
Net trading income	**3 481**	**151**	3 551	96
Other ordinary income				
Miscellaneous ordinary income	**6 391**	**38**	5 450	0
Miscellaneous ordinary expenses	**–614**	**—**	–555	—
Total	**5 777**	**38**	4 895	0
Operating expenses				
Personnel expenses	**–27 798**	**–3 358**	–28 881	–1 388
Other operating expenses	**–14 213**	**–1 729**	–14 222	–988
Total	**–42 011**	**–5 087**	–43 103	–2 376
Gross income	**7 502**	**1 453**	7 023	1 037

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

This table gives the breakdown of income and expenses arising from ordinary banking activities between the head office in Pully, the Portuguese branch offices, and the ESWM subsidiary in Luxembourg.

5.5 Presentation of material losses, extraordinary income and expenses, material releases of hidden reserves, reserves for general banking risks, and valuation adjustments and provisions no longer required

CHF 000	2013	*2012
Release of reserves for general banking risks	**13 132**	—
Partial release of the lump-sum provision for credits	**—**	2 060
Other	**50**	118
Recovery of amortized loans	**—**	—
Total extraordinary income	**13 182**	2 178

**The comparative financial statements for 2012 have not been audited. The first consolidation was performed on 31 December 2013.*

The extraordinary income item mainly consists of a partial release of reserves for general banking risks.

Auditors’ Report on the Consolidated Financial Statements

To the General Meeting of Shareholders of
Banque Privée Espírito Santo SA, Pully

As statutory auditors, we have audited the accompanying consolidated financial statements (pp. 12 to 29) of Banque Privée Espírito Santo SA, Pully, which comprise the balance sheet, income statement and notes for the year ended 31 December 2013. The indications shown for the preceding financial year in the consolidated financial statements are not audited, as the first consolidation was performed on 31 December 2013.

Board of Directors’ Responsibility
The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the company’s articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of 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.

Auditors’ 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 31 December 2013 give a true and fair view of the assets, financial position and results in accordance with the directives governing the preparation of banks' financial statements and comply with Swiss law.

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

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

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

Geneva, 14 April 2014

KPMG SA

O. Gauderon	L. Cariou
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in charge	


HOCHHAUS ZUR SCHANZE

Financial Statements and Notes 2013

Balance Sheet at 31 December

CHF	2013	2012
Assets		
Cash	**127 525 260**	74 939 512
Due from banks	**351 687 139**	186 018 179
Due from customers	**292 194 209**	270 439 993
Securities and precious metal trading portfolios	**4 929 336**	4 166 554
Financial investments	**67 398 832**	65 884 506
Equity holdings	**1 216 612**	300 515
Tangible fixed assets	**12 173 458**	7 304 438
Accrued income and prepaid expenses	**6 115 475**	7 657 665
Other assets	**3 827 860**	2 711 381
Total assets	**867 068 181**	619 422 743
Total due from Group entities and qualified shareholders	**2 079 901**	1 198 765

Liabilities		
Due to banks	**96 336 578**	72 174 544
Due to customers, other	**642 011 994**	425 356 923
Accrued expenses and deferred income	**14 339 560**	9 897 828
Other liabilities	**9 094 544**	8 599 001
Valuation adjustments and provisions	**35 927 774**	31 603 345
Share capital	**30 000 000**	30 000 000
General legal reserve	**14 415 000**	14 095 000
Other reserves	**18 000 000**	18 000 000
Net income brought forward	**4 676 102**	4 687 078
Net income for the year	**2 266 629**	5 009 024
Total liabilities	**867 068 181**	619 422 743
Total subordinated liabilities	**24 550 420**	24 150 000
Total due to Group entities and qualified shareholders	**85 980 815**	76 226 002

Off-balance-sheet transactions		
Contingent liabilities	**117 538 699**	124 577 908
Irrevocable commitments	**1 396 000**	986 000
Derivative financial instruments		
· Positive replacement values	**2 462 973**	2 021 439
· Negative replacement values	**2 064 787**	1 765 327
· Underlying value	**223 635 296**	178 181 523
Fiduciary transactions	**850 506 547**	784 332 092

Income Statement

CHF	2013	2012
Income and expenses arising from ordinary banking activities		
Net interest income		
Interest and discount income	**7 860 669**	9 003 976
Interest and dividend income from trading portfolios	**59 465**	25 365
Interest and dividend income from financial investments	**1 139 572**	1 072 706
Interest expense	**–3 327 100**	–4 348 922
	5 732 606	5 753 125
Net fee and commission income		
Fee and commission income from lending activities	**1 756 907**	1 854 814
Fee and commission income from securities trading and investments	**38 525 207**	35 214 219
Fee and commission income from other services	**4 761 015**	5 313 424
Fee and commission expense	**–5 770 604**	–3 138 467
	39 272 525	39 243 990
Net trading income	**3 631 624**	3 646 834
Other ordinary income		
Miscellaneous ordinary income	**6 390 921**	5 449 929
Miscellaneous ordinary expenses	**–613 955**	–554 957
	5 776 966	4 894 972
Operating expenses		
Personnel expenses	**–29 823 309**	–30 268 601
Other operating expenses	**–15 336 244**	–15 210 660
	–45 159 553	–45 479 261
Gross income	**9 254 168**	8 059 660
Depreciation of fixed assets	**–1 689 717**	–1 756 344
Valuation adjustments, provisions and losses	**–21 607 371**	–1 921 785
Extraordinary income	**17 050 486**	2 178 197
Extraordinary expenses	**—**	—
Taxes	**–740 937**	–1 550 704
Net income for the year	**2 266 629**	5 009 024

Notes to the Financial Statements
at 31 December 2013

1. Overview of operations and headcount

Banque Privée Espírito Santo is a limited company organized under Swiss law. Its principal activity is asset management and investment advice for private clients, and related transactions such as lombard loans, securities and foreign exchange trading, and payment transfers. The Bank conducts its business from its headquarters in Pully (Lausanne), a branch in Zürich (opened in December 2013), an office in Geneva, a branch in Portugal (Lisbon and Porto) as well as two representative offices in Poland and Spain (one in Warsaw and another in Madrid). Within the meaning of Circular 08/7 (outsourcing) issued by the Swiss Financial Market Supervisory Authority (FINMA), the Bank entrusted Sterci SA in June 2012 with the technical operation of interbank messaging systems (SIC, SWIFT and SECOM) under a detailed service contract. In order to ensure the confidentiality of transactions, this company's employees are subject to banking secrecy. Since 2011, the Bank's branch in Portugal has also outsourced the printing and dispatch of bank advices and portfolio estimates for clients to a company domiciled in that country.

The headcount at the end of the year, expressed as the number of full-time equivalents, was 164 (2012: 153).

2. Presentation of financial statements Accounting and valuation principles Risk management

Basis of presentation

The principles of presentation and valuation of the financial statements are in conformity with the Swiss Code of Obligations, the Federal Act on Banks and its implementing ordinance, as well as the FINMA directives on provisions governing the preparation of financial statements (Circular 08/2). The Board of Directors has taken the necessary measures to apply the requirements in the Code of Obligations concerning an internal control system for the preparation and presentation of the annual financial statements.

Accounting and valuation principles

Recording of transactions
All transactions are recorded at the date of conclusion (transaction date) and are valued from that date in accordance with the principles set out below.

Translation of foreign currencies
The financial statements are presented in Swiss francs. Assets and liabilities expressed in foreign currencies are translated into Swiss francs at the average exchange rate prevailing on the balance-sheet date. Income and expenses are translated at the exchange rate prevailing on the recording date.

The main exchange rates used for translation purposes at 31 December were as follows:

	2013	2012
USD	**0.8931**	0.9151
EUR	**1.2275**	1.2075

The assets and liabilities of our branch offices are translated into Swiss francs at the average exchange rate prevailing on the balance-sheet date, while income-statement items are translated at the average exchange rate for the financial year. Translation differences are carried under "Net trading income".

Cash, amounts due from and to banks and customers
These items are recorded in the balance sheet at their nominal value. Identified and foreseeable risks give rise to valuation adjustments under "Valuation adjustments and provisions".

Securities and precious metal trading portfolios
Positions in securities and precious metal trading portfolios are calculated at fair value, with reference to prices quoted on a liquid market. When it is not possible to establish fair value, positions are valued and booked at the lower of cost or market. Realized gains and losses arising from purchases and sales of these positions, as well as unrealized gains and losses arising from changes in fair value, are reported under "Net trading income".

Financial investments

Debt securities are intended to be held until maturity and are carried at cost, with premiums or discounts (rate components) amortized over the term of the investment. Any changes in value dictated by solvency are recorded immediately.

Equity holdings

Equity holdings are valued at their acquisition cost. Any lasting changes in value are recorded immediately.

Tangible fixed assets

Tangible fixed assets are carried at their acquisition value. They are depreciated using the constant percentage method with different rates for different categories, except for artworks, which are periodically valued but not depreciated.

Contingent liabilities

This type of liability is recorded under off-balance-sheet transactions at nominal value. Provisions are established for identified and foreseeable risks and are booked to "Valuation adjustments and provisions".

Valuation adjustments and provisions

Impaired loans, i.e. loans for which the borrower is unlikely to meet its future commitments, are valued individually and the depreciation in value is covered by valuation adjustments.

The depreciation in value is equivalent to the difference between the carrying amount of the loan and the amount which the Bank can expect to recover, taking into account the counterparty risk and the net liquidation value of any risk mitigants.

Lump-sum provisions are also established to cover general risks inherent in the Bank's activities.

Provisions and valuation adjustments are recorded as liabilities under "Valuation adjustments and provisions".

Taxes

Taxes that have a bearing on results, i.e. income tax and capital tax, are calculated in accordance with tax regulations and reported as an expense for the accounting period in which the income was generated.

Derivative financial instruments

The Bank does little business in this area. It mainly deals in futures contracts for the account of clients. However, it may use these instruments for its own account in connection with treasury management operations, principally for hedging purposes.

On the balance sheet, positive replacement values are entered under "Other assets" and negative replacement values under "Other liabilities". The same applies to the debit or credit balance of the compensatory account.

Replacement values of contracts traded off-exchange for the account of clients are recorded on the balance sheet even if they are hedged.

Risk analysis

See the comments regarding Risk Analysis in point 2 of the Notes to the Consolidated Financial Statements.

3. Notes to the balance sheet

3.1 Schedule of collateral for loans and off-balance-sheet transactions

See point 3.1 of the notes to the consolidated financial statements.

3.2 Securities and precious metal trading portfolios, financial investments and equity holdings

CHF 000	**2013**	2012
Securities and precious metal trading portfolios		
Debt securities (unlisted)	4 781	3 903
Equity securities	148	64
Other securities	—	200
Total	**4 929**	4 167
Financial investments		
Debt securities to be held to maturity	67 399	65 885
Total	**67 399**	65 885
· of which securities eligible for repurchase agreements in accordance with liquidity regulations	26 750	27 756
Fair value	**67 756**	66 393

CHF/EUR 000	Capital	Stake	**2013 Book value**	2012 Book value
Equity holdings without market value				
ES Wealth Management (Europe) SA, Luxembourg – Financial Advice	EUR 1 000	100%	CHF 1 217	301

3.3 Fixed assets

CHF 000	Acquisition cost	Accumulated depreciation	Book value end-2012	**2013** Additions	**2013** Disinvest-ments	**2013** Depreciation	**2013** Book value end-2013
Majority shareholdings	—	—	301	916	—	—	**1 217**
Tangible and intangible fixed assets							
Other tangible fixed assets	48 558	41 254	7 304	6 559	—	1 690	**12 173**
Fire insurance value of other tangible fixed assets			14 739				**14 739**
Future leasing terms arising from operational leasing			125				**63**

3.4 Other assets and liabilities

CHF 000	**2013** Other assets	**2013** Other liabilities	2012 Other assets	2012 Other liabilities
Replacement values of derivative financial instruments	2 463	2 065	2 021	1 765
Miscellaneous	1 365	7 030	690	6 834
Total	**3 828**	**9 095**	2 711	8 599

3.5 Assets pledged or assigned or with reservation of title

CHF 000	2013 Book value end-2013	2013 Effective liabilities	2012 Book value end-2012	2012 Effective liabilities
Due from banks	**11 738**	**—**	7 131	—
Financial investments	**26 750**	**—**	27 756	—
Total	**38 488**	**—**	34 887	—

3.5.1 Securities lending and borrowing

CHF 000	2013	2012
Fair value of securities received as collateral in connection with the loan of securities for which an unrestricted right of subsequent pledge was granted	**1 646**	1 795
· of which fair value of securities deposited with third parties	**1 646**	1 795

3.6 Liabilities to own occupational pension funds

The Bank's liabilities to the *Fondation de prévoyance du personnel* (the Fund) amounted to CHF 3 510 603 at 31 December 2013 (2012: CHF 650 000). They take the form of credit balances on current accounts and term deposits held by the Fund with the Bank.

Staff of Banque Privée Espírito Santo SA are insured with the Fondation de prévoyance Espírito Santo. The Fund grants pension benefits in excess of the minimum legal requirements. It also manages the employee benefit plans of three sister companies established in Switzerland. As a semi-independent pension institution, the Fund fully reinsures the risks of disability, death and longevity when a retired member chooses to receive a life annuity instead of a lump-sum payment.

The Bank had no economic benefits or liabilities in respect of the Fund within the meaning of Swiss RPC 16 at 31 December 2013. According to the most recent accounts at 31 December 2013, the cover rate was 112.59%, which represents a surplus of CHF 5 812 874. The Bank's contributions for the 2013 financial year in the amount of CHF 2 081 227 were fully remitted to the Fund.

3.7 Valuation adjustments and provisions, reserves for general banking risks and overview of their movements during the financial year

CHF 000	Balance, end-2012	Specific releases	Changes in allocation (new allocations)	Recoveries, overdue interest, exchange differences	New provisions charged to income statement	Releases credited to income statement	Balance, end-2013
							2013
Valuation adjustments and provisions for default risk (collection and country risks)	5 593	—	—	—	14 700	—	20 293
Valuation adjustments and provisions for other operating risks	170	—	—	—	6 625	—	6 795
Other provisions	25 840	—	—	—	—	17 000	8 840
Total valuation adjustments and provisions shown on balance sheet	**31 603**	**—**	**—**	**—**	**21 325**	**17 000**	**35 928**

The increase in valuation adjustments and provisions is due to the strengthening of credit provisions and the issue of new provisions relating to the Bank's share in the Rubik agreements, as well as its participation in the US Department of Justice's programme aimed at settling the tax dispute with the United States.
Other provisions are the provisions set aside to cover general risks inherent in banking operations. They are not taxed, as they do not reach the permitted taxable threshold.

3.8 Capital structure and shareholders with more than 5% of voting rights

See point 3.8 of the notes to the consolidated financial statements.

3.9 Shareholders’ equity

CHF 000	
Shareholders’ equity at beginning of year	
Paid-in share capital	30 000
General legal reserve	14 095
Other reserves	18 000
Available earnings	9 696
Total (before allocation of income)	**71 791**
Shareholders’ equity at end of year	
+ Allocation to general legal reserve	320
– Appropriation of available earnings	–320
– Dividends and other distributions drawn from income for the previous year	–4 700
+ Net income for the year	2 267
Total (before allocation of income)	**69 358**
of which	
Paid-in share capital	30 000
General legal reserve	14 415
Other reserves	18 000
Available earnings	6 943

3.10 Maturity structure of current assets and borrowed funds

CHF 000	At sight	Callable	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Fixed assets	Total
Current assets								
Cash	127 525	—	—	—	—	—	—	127 525
Due from banks	318 477	—	33 210	—	—	—	—	351 687
Due from customers	—	53 348	132 296	106 550	—	—	—	292 194
Securities and precious metal trading portfolios	4 929	—	—	—	—	—	—	4 929
Financial investments	—	—	15 121	13 537	38 592	149	—	67 399
Total 2013	**450 931**	**53 348**	**180 627**	**120 087**	**38 592**	**149**	**—**	**843 734**
Total 2012	221 391	52 818	157 690	128 744	40 668	138	—	601 449
Borrowed funds								
Due to banks	61 677	—	33 064	1 596	—	—	—	96 337
Due to customers, other	556 978	—	20 482	31 810	32 742	—	—	642 012
Total 2013	**618 655**	**—**	**53 546**	**33 406**	**32 742**	**—**	**—**	**738 349**
Total 2012	355 979	—	52 975	63 130	25 448	—	—	497 532

3.11 Amounts due from and to related companies and loans to governing bodies

CHF 000	**2013**	2012
Due from Espírito Santo Group banks	20 835	33 709
Due from other Espírito Santo Group companies	43	41
Total	**20 878**	33 750
Due to Espírito Santo Group banks	50 077	82 777
Due to other Espírito Santo Group companies	2 054	2 608
Total	**52 131**	85 385

The Bank has sight deposits or short-term receivables on its books within the overall credit limit provided for Espírito Santo Group banks; they are for liquidity management purposes.

Amounts due from and to the Group's non-banking entities are in the form of balances on current accounts opened by these entities at the Bank.

Amounts due from and to the Bank's qualified shareholders, even if the latter rank as governing bodies, are not entered under this heading. They are shown off-balance-sheet, in accordance with the FINMA directives on provisions governing the preparation of financial statements (Circular 08/2).

3.12 Breakdown of assets and liabilities between Switzerland and other countries

	2013		2012	
CHF 000	Switzerland	Other countries	Switzerland	Other countries
Assets				
Cash	**125 843**	**1 682**	74 138	801
Due from banks	**190 165**	**161 522**	78 775	107 243
Due from customers	**8 210**	**283 984**	7 442	262 998
Securities and precious metal trading portfolios	**153**	**4 776**	—	4 167
Financial investments	**1 536**	**65 863**	—	65 885
Equity holdings	**—**	**1 217**	—	301
Tangible fixed assets	**11 890**	**283**	7 115	189
Accrued income and prepaid expenses	**3 726**	**2 390**	5 083	2 575
Other assets	**3 010**	**818**	1 359	1 352
Total	**344 533**	**522 535**	173 912	445 511
Liabilities				
Due to banks	**11 009**	**85 327**	18 185	53 990
Due to customers, other	**63 857**	**578 155**	58 624	366 733
Accrued expenses and deferred income	**12 439**	**1 900**	8 454	1 444
Other liabilities	**7 565**	**1 530**	6 927	1 672
Valuation adjustments and provisions	**35 525**	**403**	31 275	328
Share capital	**30 000**	**—**	30 000	—
General legal reserve	**14 415**	**—**	14 095	—
Other reserves	**18 000**	**—**	18 000	—
Net income brought forward	**4 676**	**—**	4 687	—
Net income / loss for the year	**1 074**	**1 193**	4 092	917
Total	**198 560**	**668 508**	194 339	425 084

3.13 Geographical breakdown of assets

	2013		2012	
	CHF 000	As %	CHF 000	As %
Europe				
Switzerland	**344 533**	**39.74**	173 912	28.08
Portugal	**143 212**	**16.52**	158 405	25.57
Belgium	**54 172**	**6.25**	33 490	5.41
France	**12 650**	**1.46**	14 698	2.37
Spain	**11 410**	**1.32**	6 879	1.11
United Kingdom	**35 019**	**4.04**	23 622	3.81
Italy	**112**	**0.01**	6	0.00
Luxembourg	**8 478**	**0.97**	4 009	0.65
Other European countries	**32 746**	**3.78**	49 892	8.05
North America / Caribbean				
United States	**57 940**	**6.68**	37 320	6.03
Caribbean / Panama	**96 801**	**11.16**	81 694	13.19
Other North American countries	**1 800**	**0.21**	1 557	0.25
South America				
Brazil	**11 063**	**1.28**	7 530	1.22
Other South American countries	**13 917**	**1.61**	1 879	0.30
Asia / Middle East				
Singapore	**13 586**	**1.57**	13 716	2.21
United Arab Emirates	**18 684**	**2.15**	427	0.07
Other Asian and Middle East countries	**1 384**	**0.16**	2 361	0.38
Other countries	**9 561**	**1.09**	8 026	1.30
Total	**867 068**	**100.00**	619 423	100.00

3.14 Currency structure of balance sheet

CHF 000	CHF	EUR	USD	JPY	Other	Total
Assets						
Cash	125 596	1 887	23	—	20	127 526
Due from banks	26 067	85 084	210 988	400	29 148	351 687
Due from customers	8 608	195 043	83 278	117	5 148	292 194
Securities and precious metal trading portfolios	643	4 225	61	—	—	4 929
Financial investments	25 720	36 320	5 359	—	—	67 399
Equity holdings	—	1 217	—	—	—	1 217
Tangible fixed assets	11 890	283	—	—	—	12 173
Accrued income and prepaid expenses	2 818	2 927	370	—	—	6 115
Other assets	3 130	663	30	—	5	3 828
Total	**204 472**	**327 649**	**300 109**	**517**	**34 321**	**867 068**
Delivery claims arising from forward transactions	8 133	124 059	52 104	5 260	34 080	223 636
Total	**212 605**	**451 708**	**352 213**	**5 777**	**68 401**	**1 090 704**
Liabilities						
Due to banks	12 228	44 914	30 743	20	8 432	96 337
Due to customers, other	29 221	327 095	262 009	570	23 117	642 012
Accrued expenses and deferred income	12 130	2 006	202	—	—	14 338
Other liabilities	5 927	465	2 703	—	—	9 095
Valuation adjustments and provisions	35 525	403	—	—	—	35 928
Share capital	30 000	—	—	—	—	30 000
General legal reserve	14 415	—	—	—	—	14 415
Other reserves	18 000	—	—	—	—	18 000
Net income brought forward	4 676	—	—	—	—	4 676
Net income/loss for the year	1 074	1 193	—	—	—	2 267
Total	**163 196**	**376 076**	**295 657**	**590**	**31 549**	**867 068**
Delivery commitments arising from forward transactions	57 224	74 852	51 960	5 524	34 075	223 636
Total	**220 420**	**450 928**	**347 617**	**6 114**	**65 624**	**1 090 704**
Net position by currency	**–7 815**	**780**	**4 595**	**–337**	**2 777**	**0**

4. Notes to off-balance-sheet transactions

4.1 Contingent liabilities and irrevocable commitments

See point 4.1 of the notes to the consolidated financial statements.

4.2 Open positions in derivative financial instruments at year-end

See point 4.2 of the notes to the consolidated financial statements.

4.3 Fiduciary transactions

See point 4.3 of the notes to the consolidated financial statements.

4.4 Assets under management

CHF 000	2013	2012
Private clients		
Assets held by collective investment vehicles under own management	**87 119**	94 025
Assets under discretionary management agreements	**743 805**	565 915
Other assets	**3 912 179**	3 623 389
Institutional clients		
Other assets	**839 132**	609 513
Total assets (incl. double-counted)	**5 582 235**	4 892 842
of which double-counted	**87 079**	94 007
Net new money	**660 491**	15 912

The assets listed above are held or managed for investment purposes on behalf of both private and institutional clients. They mostly consist of customer deposits in the form of current account balances, term deposits, fiduciary investments and all duly valued assets.

Assets held by collective investment vehicles under own management are included in the table.

Custody-only assets are not shown.

Deposits and withdrawals of funds include inflows and outflows of securities and new money.

Debit and credit interest, the granting and repayment of loans, and changes in exchange rates and market prices of securities are not taken into account.

Deposits and withdrawals are recorded and valued in CHF at the exchange rate in effect on the transaction date.

4.5 Litigation and other possible disputes

Litigation

Two actions brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC against the Bank and numerous other financial institutions are still pending in New York courts.

The Bank is contesting these actions on both procedural grounds and on the merits, and has taken measures to defend and protect its interests. As neither the probability of a payment nor the amount involved can be reliably estimated at present, the Bank has not set aside a provision.

5. Notes to the income statement

5.1 Analysis of net trading income

See point 5.1 of the notes to the consolidated financial statements.

5.2 Analysis of personnel expenses

CHF 000	2013	2012
Remuneration	**23 222**	23 613
Social insurance contributions	**1 839**	1 954
Pension fund contributions	**2 291**	2 191
Employee incentive plan	**560**	500
Other personnel expenses	**1 911**	2 011
Total	**29 823**	30 269

5.3 Analysis of other operating expenses

CHF 000	2013	2012
Premises, equipment	**3 425**	3 346
Information technology / communications	**4 103**	3 742
Commercial expenses	**1 976**	2 034
External consultancy	**4 880**	5 315
Miscellaneous operating expenses	**952**	774
Total	**15 336**	15 211

5.4 Income and expenses arising from ordinary banking activities, broken down by Swiss and foreign origin

CHF 000	2013 Swiss	2013 Foreign	2012 Swiss	2012 Foreign
Net interest income				
Interest and discount income	**6 870**	**1 477**	7 477	1 995
Interest and dividend income from trading portfolios	**6**	**53**	25	—
Interest and dividend income from financial investments	**604**	**535**	548	524
Interest expense	**–2 560**	**–1 253**	–3 166	–1 650
Total	**4 921**	**812**	4 884	869
Net fee and commission income				
Fee and commission income from lending activities	**1 697**	**60**	1 766	89
Fee and commission income from securities trading and investments	**34 882**	**3 870**	32 875	2 339
Fee and commission income from other services	**4 744**	**17**	5 283	30
Fee and commission expense	**–5 982**	**–16**	–3 128	–10
Total	**35 341**	**3 931**	36 796	2 448
Net trading income	**3 475**	**157**	3 551	96
Other ordinary income				
Miscellaneous ordinary income	**6 391**	**—**	5 450	0
Miscellaneous ordinary expenses	**–614**	**—**	–555	—
Total	**5 777**	**—**	4 895	0
Operating expenses				
Personnel expenses	**–27 797**	**–2 026**	–28 881	–1 388
Other operating expenses	**–14 215**	**–1 123**	–14 222	–988
Total	**–42 012**	**–3 148**	–43 103	–2 376
Gross income	**7 502**	**1 752**	7 023	1 037

This table gives the breakdown of income and expenses arising from ordinary banking activities between the head office in Pully and the Portuguese branch office.

5.5 Presentation of material losses, extraordinary income and expenses, material releases of hidden reserves, reserves for general banking risks, and valuation adjustments and provisions no longer required

CHF 000	2013	2012
Release of reserves for general banking risks	**17 000**	—
Partial release of the lump-sum provision for credits	**—**	2 060
Other	**50**	118
Recovery of amortized loans	**—**	—
Total extraordinary income	**17 050**	2 178

The extraordinary income item mainly consists of a partial release of reserves for general banking risks.

6. Equity capital

6.1 Information on equity capital in accordance with FINMA circular 2008/22 "Capital adequacy disclosure – banks"

CHF 000	2013	2012
Eligible equity capital	**87 890**	111 950
Required equity capital	**27 564**	29 493
of which		
For credit risk	**17 834**	19 688
For risk without counterparties	**607**	584
For market risk	**821**	769
For operating risk	**8 302**	8 452

Appropriation of Income

Proposal to the Annual General Meeting held on 29 April 2014

The Board of Directors recommends that the available earnings for the 2013 financial year, comprising:

CHF	2013	2012
Net income for the year	2 266 629	5 009 024
Net income brought forward	4 676 102	4 687 078
totalling	**6 942 731**	9 696 102

be used as follows:

CHF	2013	2012
Allocation to the general legal reserve	—	320 000
Dividend	—	4 700 000
Balance carried forward	6 942 731	4 676 102
Total	**6 942 731**	9 696 102

Auditors' Report on the Financial Statements

To the General Meeting of Shareholders of
Banque Privée Espírito Santo SA, Pully

As statutory auditors, we have audited the financial statements (pp. 34 to 49) of Banque Privée Espírito Santo SA, Pully, which comprise the balance sheet, income statement and notes for the year ended 31 December 2013.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's articles of incorporation.

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

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

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

Geneva, 14 April 2014

KPMG SA

O. Gauderon	L. Cariou
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in charge	

Addresses

Switzerland – Head Office

Av. Général Guisan 70a
Case Postale 107
1009 Pully, Suisse

Tel.: **+41 58 619 55 55**
Fax: **+41 58 619 55 56**

E-mail: **mail@espiritosanto.com**
www.espiritosanto.com

Lisbon

Av. da Liberdade, 131–4°
1250–140 Lisboa, Portugal

Tel.: **+351 21 325 4030**
Fax: **+251 21 325 5164**

E-mail: **info@espiritosanto.pt**
www.espiritosanto.pt

Zürich

Talstrasse 65
8001 Zürich, Schweiz

Tel.: **+41 58 619 55 55**
Fax: **+41 58 619 55 56**

E-mail: **mail@espiritosanto.com**
www.espiritosanto.com

Porto

Av. da Boavista, 1837–15°,
Fracção 15.3
4100–133 Porto, Portugal

Tel.: **+351 22 605 4343**
Fax: **+251 22 606 8723**

E-mail: **info@espiritosanto.pt**
www.espiritosanto.pt

Warsaw

Ul. Złota 59,
00-120 Warszawa, Polska

Tel.: **+48 22 347 40 36**

E-mail: **info@espiritosanto.pl**
www.espiritosanto.pl

Photography: **Adrien Cater**

Design & Production: **Banque Privée Espírito Santo**

Produced with **Text Machines** / **Reports-app.com**

Printing: **Topo print / Groux arts graphiques**, Lausanne

English translation: **Brian Cover**, English Language Services, Montreux


65