Vontobel

Bank Vontobel Europe AG,
Munich

Annual Report

2017

Bank Vontobel Europe AG, Munich

Balance sheet as of 31 December 2017 of Bank Vontobel Europe AG

ASSETS	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR K
1. Cash reserve			**105,993,798.39**	**24,746**
a) Cash		50,000,883.67		0
b) Balances at central banks		55,992,914.72		24,746
thereof: at Deutsche Bundesbank	55,992,914.72			24,746
c) Postal giro balances		0.00		0
2. Public-sector debt instruments and bills of exchange eligible for refinancing with central banks			**0.00**	**0**
a) Treasury bills and treasury discount notes as well as similar public-sector debt instruments		0.00		0
b) Bills of exchange		0.00		0
3. Loans and advances to banks			**31,408,386.45**	**108,778**
a) Payable on demand		31,408,386.45		40,815
b) Other loans and advances		0.00		67,963
4. Loans and advances to customers			**44,757,521.68**	**38,948**
5. Debt securities and other fixed-income securities			**53,845,591.55**	**55,399**
a) Money market securities		0.00		0
aa) issued by the public sector		0.00		0
ab) issued by other borrowers		0.00		0
b) Bonds and debt securities		53,845,591.55		47,948
ba) issued by the public sector		41,556,843.28		47,948
thereof: eligible as collateral with Deutsche Bundesbank	41,556,843.28			47,948
bb) issued by other borrowers		12,288,748.27		7,451
c) Own debt securities (nominal value)		0.00		0
6. Shares and other variable-yield securities			**0.00**	**0**
6 a. Trading assets			**0.00**	**0**
7. Equity investments			**0.00**	**0**
8. Shares in affiliates			**0.00**	**0**
9. Trust assets			**0.00**	**0**
10. Equalization claims on the public sector including debt securities resulting from their conversion			**0.00**	**0**
11. Intangible assets			**1,525,053.00**	**39**
a) Internally generated industrial and similar rights and assets		0.00		0
b) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets		306,435.00		39
c) Goodwill		1,218,618.00		0
d) Prepayments		0.00		0
12. Property and equipment			**446,236.59**	**489**
13. Unpaid contributions to subscribed capital			**0.00**	**0**
14. Other assets			**6,460,749.15**	**7,534**
15. Prepaid expenses			**69,040.16**	**147**
16. Deferred tax assets			**0.00**	**0**
17. Excess of covering assets over pension and similar obligations			**0.00**	**0**
18. Capital deficit			**0.00**	**0**
Total assets			**244,506,376.97**	**236,080**

EQUITY AND LIABILITIES	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR K
1. Liabilities to banks			**344,496.83**	**8**
a) Payable on demand		344,496.83		8
b) With an agreed term or period of notice		0.00		0
2. Liabilities to customers			**156,312,167.76**	**149,291**
a) Saving deposits		0.00		0
b) Other liabilities		156,312,167.76		149,291
ba) payable on demand	156,312,167.76			149,291
bb) with an agreed term or period of notice	0.00			0
3. Securitized liabilities			**0.00**	**0**
a) Debt securities issued		0.00		0
b) Other securitized liabilities		0.00		0
3a. Trading liabilities			**0.00**	**0**
4. Trust liabilities			**0.00**	**0**
5. Other liabilities			**2,380,769.69**	**2,909**
6. Deferred income			**0.00**	**0**
6 a. Deferred tax liabilities			**0.00**	**0**
7. Provisions			**7,440,607.61**	**6,912**
a) Provisions for pensions and similar obligations		1,657,173.00		1,654
b) Tax provisions		513,193.00		240
c) Other provisions		5,270,241.61		5,018
8. (deleted)				
9. Subordinated liabilities			**0.00**	**0**
10. Participation certificate capital			**0.00**	**0**
11. Fund for general banking risks			**0.00**	**0**
12. Equity			**78,028,335.08**	**76,960**
a) Subscribed capital		40,500,000.00		40,500
b) Capital reserves		32,390,822.33		32,391
c) Revenue reserves		3,105,598.34		3,106
ca) legal reserve		0.00		0
cb) reserve for treasury shares held in a controlling entity or majority shareholder		0.00		0
cc) reserves required by the articles of incorporation and by laws		0		0
cd) other revenue reserves		3,105,598.34		3,106
d) Net retained profit		2,031,914.41		963
Total liabilities and equity			**244,506,376.97**	**236,080**

Below-the-line items

	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR K
1. Contingent liabilities			**17,497,621.19**	**9,036**
a) Acceptances and endorsements		0.00		0
b) Guarantees		17,497,621.19		9,036
c) Assets pledged as collateral for third-party liabilities		0.00		0
2. Other obligations			**0.00**	**0**
a) Commitments arising out of sale and repurchase transactions		0.00		0
b) Placement and underwriting commitments		0.00		0
c) Irrevocable loan commitments		0.00		0

Income statement of of Bank Vontobel Europe AG from 1 January to 31 December 2017

	EUR	EUR	31.12.2017 EUR	31.12.2016 EUR K
1. Interest income from		**1,582,722.76**		**1,335**
a) Lending and money market business		378,833.30		26
thereof: negative interest income	221,265.10			339
b) Fixed-income securities and government-inscribed debt		1,203,889.46		1,309
2. Interest expenses		**–159,050.20**	**1,423,672.56**	**–9**
3. Current income from			**0.00**	**0**
a) Shares and other variable-yield securities		0.00		0
b) Equity investments		0.00		0
c) Shares in affiliates		0.00		0
4. Income from profit pooling and profit and loss transfer agreements			**0.00**	**0**
5. Commission income		**35,292,163.50**		**31,041**
6. Commission expenses		**–2,784,524.34**	**32,507,639.16**	**–3,157**
7. Net income or net expense from trading book positions			**0.00**	**0**
8. Other operating income			**1,427,730.17**	**1,135**
9. (deleted)				
10. General and administrative expenses			**–30,504,933.68**	**–26,655**
a) Personnel expenses		**–16,461,506.96**		**–14,505**
aa) Wages and salaries		–14,206,541.16		–12,383
ab) Social security, pension and other benefit costs		–2,254,965.80		–2,122
thereof: for old-age pensions:	–638,217.14			–661
b) Other administrative expenses		**–14,043,426.72**		**–12,150**
11. Amortization, depreciation and write-downs of intangible assets and property and equipment			**–546,012.24**	**–198**
12. Other operating expenses			**–691,071.82**	**–1,573**
13. Write-downs of and allowances on loans and advances and certain securities and allocations to provisions for possible loan losses			**–1,493,312.40**	**–1,010**
14. Income from write-ups of loans and advances and certain securities and from the reversal of provisions for possible loan losses			**1,500.00**	**46**
15. Write-downs of and allowances on equity investments, shares in affiliates and securities classified as fixed assets			**0.00**	**0**
16.Income from write-ups of equity investments, shares in affiliates and securities classified as fixed assets			**0.00**	**0**
17. Expenses from loss absorption			**0.00**	**0**
18. (deleted)				
19. Result from ordinary activities			**2,125,211.75**	**955**
20. Extraordinary income		**235,941.50**		**0**
21. Extraordinary expenses		**0.00**		**0**
22. Extraordinary result			**235,941.50**	**0**
23. Income taxes			**–329,238.84**	**9**
24. Other taxes not disclosed under item 12			**0.00**	**0**
25. Income from loss absorption			**0.00**	**0**
26. Profits transferred under profit pooling and profit and loss transfer agreements			**0.00**	**0**
27. Net income for the year			**2,031,914.41**	**963**
28. Profit / loss carryforward from the prior year			**0.00**	**0**
29. Appropriations of the capital reserves			**0.00**	**0**
30. Appropriations of the revenue reserves			**0.00**	**0**
31. Appropriation of participation certificate capital			**0.00**	**0**
32. Allocations to the revenue reserves			**0.00**	**0**
33. Replenishment of participation certificate capital			**0.00**	**0**
34. Net retained profit			**2,031,914.41**	**963**

Notes

General

Accounting regulations

The financial statements as of 31 December 2017 of Bank Vontobel Europe AG, Munich, entered in the commercial register of Munich Local Court under HRB no. 133419, were prepared in accordance with the applicable laws (the AktG ["Aktiengesetz": German Stock Corporation Act], the HGB ["Handelsgesetzbuch": German Commercial Code] and the RechKredV ["Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute": German Bank Accounting Directive]).

In accordance with Sec. 1 RechKredV in conjunction with Sec. 2 RechKredV, the Bank uses form 1 for the balance sheet and form 3 (vertical form) with amendments for the income statement

Bank Vontobel Europe AG, Munich, Germany, is wholly owned by Vontobel Holding AG, Zurich, Switzerland, and is thus a Vontobel Group company.

Accounting and valuation methods

The financial statements were prepared in accordance with German legally required accounting principles and the general principle of presenting a true and fair view of the Institution's assets, liabilities, financial position and financial performance.

In the valuation of assets and liabilities, the principle of item-by-item measurement was observed and a going concern was assumed.

The principle of prudence was applied taking account of the special aspects pertaining to the banking business.

The cash reserve is carried at nominal value.

Loans and advances to banks and to customers are carried at nominal value. Allowances and provisions are recognized for identifiable risks.

As of the balance sheet date, there were no signs indicating any need to recognize risk provisions for loans and advances to banks and customers.

Securities are assigned to the liquidity reserve. The Bank performs valuations in accordance with the strict lower of cost or market principle.

Property and equipment as well as intangible assets are, in accordance with Sec. 253 (3) HGB, recognized at acquisition or production cost and are depreciated if they have a limited life. If necessary, write-downs are also charged for property and equipment and intangible assets. The goodwill acquired in 2017 when the operating activities of Vontobel Asset Management S.A., Vienna, were taken over is being amortized over five years, taking into account extended customer retention. If the grounds for write-downs recognized in the past no longer exist, write-ups are carried out, but not in excess of depreciated cost. From 2008 up to and including 2012, collective items recognized in accordance with Sec. 6 (2a) EStG ["Einkommensteuergesetz": German Income Tax Act] for low-value assets were depreciated over five years on a straight-line basis. A change was made in 2013 back to annual depreciation of low-value assets.

The amortization rates for intangible assets range between 20% and 33%. The depreciation rates for property and equipment range between 6% and 50%.

Other assets are carried at nominal value.

Expenses recorded before the balance sheet date which relate to a certain period after this date are posted as prepaid expenses.

All liabilities are recognized at the settlement value in accordance with Sec. 253 (1) Sentence 2 HGB. The accrued interest calculated as of the balance sheet date is shown in the underlying receivable and liability items.

Allocations were made to provisions based on the identifiable risks and for uncertain liabilities according to prudent business judgment. An allocation to a pension provision was made in the amount of EUR 1,657k (prior year: EUR 1,654k), which was determined on the basis of an actuarial report using a 10-year average interest rate. The pension provisions were calculated in accordance with the projected unit credit method, using an interest rate of 3.68% (prior year: 4.03%), salary increases of 1.0% (prior year: 1.0%) and pension increases of 2.0% (prior year: 2.0%). The calculations were based on the 2005 G mortality tables by Dr. Klaus Heubeck, Cologne. The amounts were calculated on the basis of a 10-year average interest rate and a 7-year average interest rate. The difference between these two calculations is EUR 283k (prior year: EUR 253k). In order to fulfill the commitments, an employer's pension liability insurance policy for part of the amount was taken out with Allianz Lebensversicherungs-AG, Munich. The Company also recognized a provision for a working time account (long-term account) of EUR 750k (prior year: EUR 731k). In order to fulfill the commitments, an employer's pension liability insurance policy was entered into with Allianz Lebensversicherungs-AG, Munich, Germany. As of 31 December 2017, the fair value was EUR 750k (prior year: EUR 731k). The asset value of the employer's pension liability insurance policy and the provision for pension obligations were netted in accordance with Sec. 246 (2) HGB. Offset income and expenses totaled EUR 19k (prior year: EUR 21k).

The Bank uses the present value method to determine the net realizable value of the banking book on the basis of IDW Accounting Principle IDW AcP BFA 3. There was no net obligation as of the balance sheet date. Contingent liabilities and other liabilities are stated at their nominal value.

Foreign currency receivables / liabilities are translated in accordance with Sec. 256a HGB. All assets and liabilities denominated in foreign currency are stated at the ECB reference rate at the balance sheet date.

Currency translation profit / loss is stated under other operating income / expenses.

Negative interest incurred was recognized separately in the income statement in a "thereof" item. Income and expenses were recorded on an accrual basis.

Pursuant to Sec. 284 I HGB, no deferred taxes were recognized on loss carryforwards (option).

Subsequent events

No significant events occurred after 31 December 2017 that would have to be recognized in the income statement or in the balance sheet.

Notes to the balance sheet and income statement

a) Total assets and liabilities denominated in foreign currency

EUR K	31.12.2017	31.12.2016
Assets denominated in foreign currency	20,908	20,765
Liabilities denominated in foreign currency	20,908	20,765

b) Classification of loans and advances to banks by remaining maturity (including accrued interest)

EUR K	31.12.2017	31.12.2016
Payable on demand	31,408	40,815
Up to 3 months	0	67,963
More than 3 months up to 1 year	0	0

c) Receivables from affiliates included in loans and advances to banks

EUR K	31.12.2017	31.12.2016
Bank Vontobel AG, Zurich, Switzerland	9,710	18,366

d) Classification of loans and advances to customers by remaining maturity (including accrued interest)

EUR K	31.12.2017	31.12.2016
Payable on demand	44,758	38,948
More than 3 months up to 1 year	0	0

e) Loans and advances to customers do not contain any receivables from affiliates or amounts with an indefinite term.

f) The Bank does not hold debt securities or other fixed-income securities of affiliates.

g) Breakdown of debt securities and other fixed-income securities which are admitted for exchange trading (including accrued interest)

EUR K	31.12.2017	31.12.2016
Listed:		
Fixed-income securities	53,846	55,399

Debt securities and other fixed-income securities do not contain securities of affiliates. All of the securities are listed on a securities exchange.

h) Fixed-income securities due in the year following the balance sheet date

EUR K	31.12.2017	31.12.2016
	18,639	4,999

i) Significant items under other assets

EUR K	31.12.2017	31.12.2016
Receivables from group companies	5,219	3,988
Deposit at Salzburger Landes-Hypothekenbank AG	0	1,016
Employer's pension liability insurance for pension commitments	655	932
Receivables from the tax office	18	908
Receivables from other tax offices (UK)	50	291
Trade receivables – domestic	447	195
Rent deposit	147	153
Advances on wages and salaries	20	0
Other assets	61	51

In the 2017 financial statements, the deposit at Salzburger Landeshypotheken Bank is recognized under the item loans and advances to banks.

j) Receivables from affiliates included in other assets

EUR K	31.12.2017	31.12.2016
Receivable from Bank Vontobel AG, Zurich	4,916	3,973
Receivable from Vontobel Financial Products GmbH, Frankfurt am Main	15	15
Receivable from VAMSA, Munich branch	132	0

The receivables from Bank Vontobel AG, Zurich, Switzerland, arose under various service level agreements between the Investment Banking business unit and Bank Vontobel Zürich AG. This relates in particular to cost refunds for the sales units.

k) Classification of liabilities to banks by remaining maturity

EUR K	31.12.2017	31.12.2016
Payable on demand	344	8

l) There are no liabilities to affiliates included in liabilities to banks.

EUR K	31.12.2017	31.12.2016
Bank Vontobel AG, Zurich (up to three months)	0	0

m) Bank Vontobel Europe AG, Munich, Germany, does not hold any savings deposits with an agreed period of notice.

n) Classification of liabilities to customers by remaining maturity

EUR K	31.12.2017	31.12.2016
Payable on demand	156,312	149,291

o) Liabilities to customers do not include any liabilities to affiliates.

p) Significant items under other liabilities

EUR K	31.12.2017	31.12.2016
Other liabilities to Salzburger Landes-Hypothekenbank AG	773	1,016
Trade payables – Group	653	810
Liabilities to the tax office	735	684
Trade payables	133	241
Employee pension obligations	0	78
Other liabilities	87	80

q) Liabilities to affiliates included in other liabilities

EUR K	31.12.2017	31.12.2016
Liability to Bank Vontobel AG, Zurich	215	356
Liability to VFP PTE. Ltd., Singapore	333	240
Liability to Vontobel Asset Management SA, London branch	0	130
Liability to Bank Vontobel Asset Management SA, Zurich	83	83

r) Significant items under provisions

Other provisions

EUR K	31.12.2017	31.12.2016
Bonus (including performance shares)	3,730	3,597
Litigation risks	677	677
Provision for lawyers' and court fees	185	159
Unused vacation	129	145
Audit fees	179	131
Provision for outstanding invoices from trade	263	126
Social security contributions – UK	47	80
Employee severance payments and litigation costs	0	78
Other provisions	61	25
Tax provision	**513**	**240**
Pension provisions	**1,657**	**1,654**

s) As of the end of the year, a provision for employee bonuses of EUR 2,961k (prior year: EUR 2,544k) was recognized. Employees can opt to have 25% of their bonus paid out as shares in Vontobel Holding AG, Zurich, Switzerland. Employees who have decided in favor of shares in the holding company also have the right to be allocated performance shares after a period of three years. A provision of EUR 768k (prior year: EUR 833k) was recognized to account for these rights. Vontobel Holding AG, Zurich, Switzerland, has set a three-year vesting period for shares obtained in this manner. A three-year period is used for calculating the provision for performance shares. The number of shares received and the monthly price of the shares are used as a basis for calculation.

t) Subscribed capital

EUR K	31.12.2017	31.12.2016
40,500,000 no-par shares at EUR 1.00 each	40,500	40,500

u) Off-balance sheet contingent liabilities of EUR 17,498k (prior year: EUR 4,803k) relate to liability for third parties and guarantees. These are fully collateralized by customer securities holdings and account balances. Bank Vontobel Europe AG, Munich, Germany, estimates the risk of claims to be low, as all contingent liabilities relate to customers with high credit ratings. In 2016, a guarantee was provided on behalf of Vontobel Financial Products GmbH, Frankfurt, relating to an issue volume of EUR 15,986k as of the balance sheet date. In this context, the Bank has undertaken towards the owners of structured securities (leveraged products), which were issued by Vontobel Financial Products GmbH, Frankfurt, and are admitted to trading on the exchanges in Italy (Borsa Italiana), France (Euronext) and the Netherlands (Euronext), to unconditionally and irrevocably guarantee the correct payment of all amounts payable under the terms of issue of these securities. For the guarantee, the Bank may require Vontobel Financial Products GmbH, Frankfurt, to provide, at any time and in the full amount, collateral in the form of securities or cash deposits. As additional collateral, Vontobel Financial Products GmbH, Frankfurt, has pledged its internal hedging instruments relating to the guaranteed securities to Bank Vontobel Europe AG.

v) As of the balance sheet date, there were no irrevocable loan commitments (prior year: EUR 0k). All loan commitments are revocable.

w) Commission income – country breakdown

EUR K	31.12.2017	31.12.2016
Switzerland	18,240	13,876
Germany	8,646	8,357
UK	2,963	4,610
Luxembourg	5,025	3,802
Scandinavia	418	394
Other	0	2

x) Commission income by business unit

EUR K	31.12.2017	31.12.2016
Wealth Management	8,121	7,157
Investment Banking	18,103	14,689
Asset Management	5,337	3,934
Brokerage London	3,520	4,603
Corporate Center	211	658

y) Significant items of other operating income

EUR K	31.12.2017	31.12.2016
Income from the reversal of provisions	311	305
Exchange gain from currency transactions	108	268
Income from VAT refund (input tax ratio for banks)	51	200
Other	75	180
Income from subletting	112	120
Income from allocations	770	62

z) Significant items of other expenses

EUR K	31.12.2017	31.12.2016
Damages paid to customers	2	707
Royalties	526	408
Exchange loss from currency transactions	101	258
Interest expenses from pension obligations	59	64
Expenses from legal disputes	3	60
Other	0	76

aa) Extraordinary income relates exclusively to the write-off of a time-barred liability of the former Bank Vontobel Österreich AG, Salzburg, which was merged with Bank Vontobel Europe AG in 2015.

ab) Net retained profit for fiscal year 2016 was fully distributed to the parent company. In fiscal year 2017, the Institution once again generated net income for the year, which was fully distributed to the shareholder in accordance with the management board's profit appropriation proposal.

ac) The Institution's subscribed capital stood at EUR 40,500k as of the balance sheet date (prior year: EUR 40,500k). Capital reserves amounted to EUR 32,391k (prior year: EUR 32,391k). Revenue reserves came to EUR 3,106k.

Other notes

a) Management board and supervisory board

MEMBERS OF THE MANAGEMENT BOARD (INCLUDING FORMER BOARD MEMBERS)

Stefan Armbruster, Oberursel	Board member for Investment Banking Financial Products	(Member since 01.11.2017)
Thomas Fischer, Munich	Board member for Wealth Management	(Member since 01.01.2017)
Dr. Wolfgang Gerhardt, Petersberg	Board member for Wealth Management, Investment Banking Financial Products	(Speaker until 30.04.2017)
Andreas Heinrichs, Solingen	Board member for Investment Banking Brokerage, Asset Management	(Member)
Jürgen Kudszus, Starnberg	Board member for Corporate Center	(Member)

MEMBERS OF THE SUPERVISORY BOARD

Dr. Martin Sieg Castagnola, Zollikon, Switzerland	CFO, Bank Vontobel AG, Zurich	(Chairman)
Felix Lenhard, Zurich, Switzerland	COO, Bank Vontobel AG, Zurich	(Deputy Chairman)
Roland Rötheli, Winterthur, Switzerland	Member of business unit management, Bank Vontobel AG, Zurich	(Member)

REMUNERATION OF THE MANAGEMENT BOARD

EUR K	2017	2016
Fixed component	1,091	873
Variable component	579	360

The fixed component contains various benefits such as company car, pension, insurance and allowances of EUR 247k (prior year: EUR 90k). The variable component of management board remuneration is provided in the form of bonus cash distributions and bonus shares. Performance shares were also allocated in 2017. The cash distribution came to EUR 345k (prior year: EUR 218k), the bonus shares came to EUR 106k (prior year: EUR 58k) and the performance shares allocated in 2017 came to EUR 127k (prior year: EUR 84k). The members of the supervisory board (including former board members) did not receive any remuneration in 2016 or 2017 for their work on the supervisory board.

No loans were issued to management board or supervisory board members. There were no receivables due from management board or supervisory board members.

Positions held by management board members in other supervisory boards or other oversight bodies:

Mr. Stefan Armbruster is general manager of Vontobel Financial Products GmbH, Frankfurt am Main, Germany, and a member of the management board of Deutsche Derivate Verband, Frankfurt am Main, Germany.

Mr. Andreas Heinrichs is a member of the management board of DVFA e.V. in Frankfurt am Main, Germany, and the supervisory board of Promont AM AG, Cologne, Germany.

Dr. Wolfgang Gerhardt was general manager of Vontobel Financial Products GmbH, Frankfurt am Main, Germany, and a member of the management board of the Swedish Exchange Traded Investment Products Association (Setipa), Stockholm, Sweden.

Mr. Jürgen Kudszus is a member of the advisory board of Vontobel Financial Products GmbH, Frankfurt am Main, Germany.

The members of the supervisory board are members of the following supervisory boards or other oversight bodies:
Dr. Martin Sieg Castagnola is a member of group executive management and chief financial officer (CFO) of the Vontobel Group, Zurich, Switzerland, as well as a member of management and CFO of Bank Vontobel AG, Zurich, Switzerland. Together with Dr. Zeno Staub, CEO of the Vontobel Group, he is general manager of Vontobel Holding AG, Zurich, Switzerland. In addition, he is:

- Chairman of the supervisory board of Bank Vontobel Europe AG, Munich, Germany
- President of the board of directors of Bank Vontobel (Liechtenstein) AG, Vaduz, Liechtenstein
- President of the board of directors of Vontobel Beteiligungen AG, Zurich, Switzerland
- Member of the board of directors of Vontobel Asset Management AG, Zurich
- Vice chairman of the board of directors of Vontobel Financial Products Ltd., Dubai, United Arab Emirates
- Member of the board of directors of TwentyFour Asset Management LLP, London

- Vice chairman of the board of directors of Vontobel Asset Management Asia Pacific Ltd., Hong Kong
- Vice chairman of the board of directors of Vontobel Wealth Management Ltd., Hong Kong
- Member of the board of Vontobel Limited, Hong Kong
- Member of the board of Vontobel Asset Management Inc., New York, USA
- Vice president of the regulatory board of SIX Swiss Exchange AG and chairman of the Participants & Surveillance Committee of SIX Swiss Exchange AG, Zurich, Switzerland.

Mr. Felix Lenhard is a member of group executive management and chief operating officer (COO) of the Vontobel Group, Zurich, Switzerland, as well as a member of management and COO of Bank Vontobel AG, Zurich, Switzerland. In addition, he is:
- Deputy chairman of the supervisory board of Bank Vontobel Europe AG, Munich, Germany
- Member of the board of directors of Vontobel Asset Management AG, Zurich,
- Vice president of the board of directors of TwentyFour Asset Management LLP, London
- Member of the board of Vontobel Asset Management Inc., New York, USA.

Mr. Roland Rötheli is a member of management of the Private Banking business unit of Bank Vontobel AG, Zurich, Switzerland. In addition, he is a member of the supervisory board of Bank Vontobel Europe AG, Munich, Germany.

b) Average number of employees during the year
There was an average of 83 employees during fiscal year 2017 (of which an average of 4 management board members and 7 London branch employees) (prior year: 81 employees, 3 management board members, 6 IB London employees). As of 31 December 2017, the headcount consisted of 87 employees and 4 management board members. Of these employees, 23 employees and one management board member were in the Wealth Management business unit, 34 employees and 2 management board members in the Investment Banking business unit (of which 7 in IB London), 9 employees in the Asset Management business unit and 21 employees and 1 management board member in the Corporate Center.

c) Forward transactions
There were no forward transactions in securities or forward exchange transactions as of 31 December 2017 or in the prior year.

d) Other financial obligations Rent and lease payments for property and equipment not shown in the balance sheet

EUR K	31.12.2017	31.12.2016
Total financial obligations	5,202	6,815
thereof to affiliates / associates	0	0

e) Audit fees
The auditor's fees for fiscal year 2017 total EUR 217k (prior year: EUR 193k) net and break down as follows

EUR K	31.12.2017	31.12.2016
Audit services	169	145
Audit-related services	43	43
Other services	5	5

f) The Institution concluded related party transactions in the reporting year. However, these relate exclusively to transactions with companies included in the basis of consolidation of Vontobel Holding AG, Zurich, Switzerland. Consequently, there were no reportable related party transactions.

g) The parent company which prepares the consolidated financial statements for the largest and smallest group of companies is Vontobel Holding AG, Zurich, Switzerland. The consolidated financial statements are published on the homepage of Bank Vontobel AG, Zurich, Switzerland (www.vontobel.ch).

h) Bank Vontobel Europe AG will publish its financial statements in the elektronischer Bundesanzeiger [Electronic German Federal Gazette].

i) Cash flow statement: see exhibit.

j) Statement of changes in fixed assets: see exhibit.

Munich, 1 February 2018

Stefan Armbruster, management board member

Thomas Fischer, management board member

Andreas Heinrichs, management board member

Jürgen Kudszus, management board member

Cash flow statement of Bank Vontobel Europe AG, Munich

ITEM IN EUR	2017	2016
Net income / loss for the year according to the income statement	**2,031,914**	**963,417**
Income from loss absorption	0	0
Result from ordinary activities	**2,031,914**	**963,417**
Non-cash items included in net income and reconciliation with cash flows from operating activities		
Write-downs, allowances on and write-ups of loans and advances and fixed assets	545,715	198,122
Increase / decrease in provisions	335,132	–465,953
Other non-cash expenses / income	0	0
Gain / loss on disposals of fixed assets	0	6,298
Other adjustments (net)	0	0
Non-cash items included in net income and reconciliation with cash flows from operating activities		
Increase / decrease in loans and advances to banks	77,643,153	–47,502,917
Increase / decrease in loans and advances to customers	–5,809,099	4,369,297
Increase / decrease in securities (other than financial assets)	–4,835,846	16,246
Increase / decrease in other assets from operating activities	0	0
Prepaid expenses	*77,893*	*129,165*
Other assets	*1,007,599*	*1,554,660*
Increase / decrease in liabilities to banks	336,556	–697,510
Increase / decrease in liabilities to customers	7,021,399	–22,102,764
Other liabilities	–528,022	–1,120,841
Interest expenses / interest income	–1,423,673	–1,326,292
Expenses / income from extraordinary items	–235,942	0
Income tax expense / income	329,239	–8,637
Interest received and dividend payments	1,544,795	1,454,422
Interest paid	–159,050	–8,832
Extraordinary payments received	0	0
Extraordinary payments made	0	0
Income tax paid	–70,727	–172,119
Cash flows from operating activities	**77,811,035**	**–64,714,238**
Cash received from disposals of fixed financial assets	0	405,360
Cash paid for investments in fixed financial assets	0	0
Cash received from disposals of property and equipment	299	2,500
Cash paid for investments in property and equipment	–117,279	–87,295
Cash received from disposals of intangible assets	0	0
Cash paid for investments in intangible assets	–1,872,552	–12,798
Changes in funds relating to other investing activities (net)	0	0
Cash received from extraordinary items	0	0
Cash paid for extraordinary items	0	0
Cash flows from investing activities	**–1,989,532**	**307,767**
Cash received from capital contributions by the shareholder	0	0
Cash paid to the shareholder for capital reductions	0	0
Cash received from income from loss absorption	0	0
Cash paid for extraordinary items	0	0
Dividends paid to the shareholder	–963,417	0
Changes in funds relating to other capital (net)	0	0
Cash flows from financing activities	**–963,417**	**0**
Change in cash funds	74,858,087	–64,406,471
Change in cash funds from exchange rate movements and in valuation procedures for cash funds	–1,500	17,621
Change in cash funds due to acquisition / merger	0	0
Cash funds at the beginning of the period	72,694,055	137,082,905
Cash funds at the end of the period	**147,550,642**	**72,694,055**

Cash and cash equivalents

The cash and cash equivalents in the cash flow statement contain the liquid funds (cash, current/demand deposits at Deutsche Bundesbank and foreign central banks), as well as bonds and debt securities issued by the public sector.

Composition of cash funds

IN EUR	2017	2016
Cash	50,000,884	369
Balances at the central bank	55,992,915	24,745,985
Public-sector debt instruments and bills of exchange eligible for refinancing with central banks	41,556,843	47,947,700

The other adjustments relate to expenses already included in the cash funds.

None of the cash funds are subject to restrictions on disposal.

Statement of changes in fixed assets for fiscal year 2017

Acquisition costs

EUR	INTANGIBLE ASSETS	PROPERTY AND EQUIPMENT
Acquisition costs as of 01.01.2017	521,494.84	1,446,061.80
Additions	1,872,552.25	117,278.55
Disposals	0.00	3,580.60
Reclassifications	0.00	0.00
Acquisition costs as of 31.12.2017	**2,394,047.09**	**1,559,759.75**

Scheduled write-downs

	INTANGIBLE ASSETS	PROPERTY AND EQUIPMENT
Accumulated write-downs as of 01.01.2017	482,668.84	957,414.65
Scheduled write-downs	386,325.25	159,390.11
Disposals	0.00	3,281.60
Reclassifications	0.00	0.00
Additions	0.00	0.00
Accumulated write-downs as of 31.12.2017	**868,994.09**	**1,113,523.16**
Carrying amounts as of 31.12.2017	**1,525,053.00**	**446,236.59**
Carrying amounts as of 31.12.2016	**38,826.00**	**488,647.15**

Disclosure by institutions

Sec. 26a KWG Disclosure by institutions

In addition to the disclosures made by Bank Vontobel Europe AG pursuant to Articles 435 to 455 of Regulation (EU) No 575/2013, the following information is published in accordance with Sec. 26a KWG [“Kreditwesengesetz”: German Banking Act]:

As of the balance sheet date, there were no irrevocable loan commitments (prior year: EUR 0k). All loan commitments are revocable.

Name
Bank Vontobel Europe AG, Munich

Geographical location of the branch(es)
London, UK

Legal Entity

	NATURE OF ACTIVITIES
Bank Vontobel Europe AG	Conducting banking business within the meaning of::
	Sec. 1 (1) Sentence 2 No. 1 KWG (deposit business)
	Sec. 1 (1) Sentence 2 No. 2 KWG (lending business)
	Sec. 1 (1) Sentence 2 No. 4 KWG (principal broking services)
	Sec. 1 (1) Sentence 2 No. 5 KWG (custody business)
	Sec. 1 (1) Sentence 2 No. 8 KWG (guarantee business)
	Sec. 1 (1) Sentence 2 No. 9 KWG (giro business)
	Sec. 1 (1) Sentence 2 No. 10 KWG (underwriting business)
Bank Vontobel Europe AG	Providing financial services within the meaning of::
	Sec. 1 (1a) Sentence 2 No. 1 KWG (investment broking)
	Sec. 1 (1a) Sentence 2 No. 1a KWG (investment advice)
	Sec. 1 (1a) Sentence 2 No. 1c KWG (placement business)
	Sec. 1 (1a) Sentence 2 No. 2 KWG (contract broking)
	Sec. 1 (1a) Sentence 2 No. 3 KWG (portfolio broking)
	Sec. 1 (1a) Sentence 2 No. 4 KWG (proprietary trading)
	Sec. 1 (1a) Sentence 2 No. 5 KWG (non-EEA deposit broking)
	Sec. 1 (1a) Sentence 3 KWG (proprietary business)
	Providing ancillary banking services within the meaning of Sec. 1 (3c) KWG
	All other services suitable for directly or indirectly promoting the Company’s business purpose to the extent that the required approvals have been obtained from the competent authorities.
London branch	Sec. 1 (1) Sentence 2 No. 4 KWG (principal broking services)
	Sec. 1 (1a) Sentence 2 No. 1 KWG (investment broking)

	REVENUE (EUR)
Bank Vontobel Europe AG	35,159,042 (including London)
London branch	3,471,892

	NUMBER OF EMPLOYEES ON A FULL-TIME EQUIVALENT BASIS (FTE)
Bank Vontobel Europe AG	82,76 (including London)
London branch	6,58

	PROFIT OR LOSS BEFORE TAX (EUR)
Bank Vontobel Europe AG	2,031,914 (including London)
London branch	–643,612

	TAX ON PROFIT OR LOSS (EUR)
Bank Vontobel Europe AG	329,239 (including London)
London Branch	59,695

	PUBLIC SUBSIDIES RECEIVED (EUR)
Bank Vontobel Europe AG	0
London branch	0

Management report

1 General conditions and financial markets

The sluggish global economy started to gather pace in mid-2016. As a broad-based recovery across all segments is evident, the International Monetary Fund and the Organization for Economic Cooperation and Development (OECD) revised growth forecasts upwards. Despite substantially full employment, wage growth and core inflation in the US remain moderate. Consequently, the US Federal Reserve (Fed) and the other central banks maintained a loose monetary policy overall in 2017. However, strong economic data in the fourth quarter did not fail to spur the major central banks into action. In December, the Fed raised interest rates for the third time in the year and began reducing its bloated balance sheet. The flood of cash on the other side of the Atlantic is also starting to be reined in somewhat. The European Central Bank announced the curtailment of its bond purchasing program in 2018 from EUR 60b to EUR 30b per month. By contrast, the Japanese Central Bank did not signal any change to its expansive monetary policy.

In the fourth quarter, stock markets around the world ramped up their performance and corporates continued to satisfy investors by reporting strong profits thanks to accelerating global economic growth. US companies in particular were buoyed up by the decision to enact a comprehensive US tax reform plan on 22 December 2017. The tax reform plan includes a reduction in corporate taxes from 35% to 21%.

Major US and Japanese stock indices rose by just under 20% in 2017, while internet stocks on the US technology index Nasdaq even shot up by 28%. In Europe, Germany, the Netherlands, Italy and Switzerland were the major winners with growth of between 12% and 15%. The UK market, dogged by Brexit, still managed to score an 8% rise. With the exception of corporate bonds, prices in many bond categories were flat or traded lower, especially in Germany and Switzerland. However, the yields reported by these countries are still close to zero. For investors focusing on the euro, precious metals offered little appeal, while in the US, gold was up by 10%.

The strong economic impetus also helped boost demand for commodities, especially cyclical commodities and industrial metals. The price of copper, for example, rose to more than USD 7,000 by the end of the year. On the supply side, the upward trend was bolstered by the temporary closure of various metal producers' manufacturing plants in China for political reasons.

2 Industry performance and securities turnover

The European banking sector is still going through a phase of structural change. The financial reports of reputable financial institutions were once again shaped by high costs for restructuring and provisions for legal risks in 2017. Moreover, asset management service providers have faced significant investments in customer and compliance processes as well as in product offering and automation in the last few years due to the provisions of the Markets in Financial Instruments Directive (MiFID) II which came into force on 3 January 2018. MiFID II was developed to enhance investor protection, market structures and market transparency, to strengthen corporate governance and internal control systems as well as to enforce specific rules for algorithmic and high-frequency trading.

Furthermore, in 2017, write-downs on US tax credits in connection with the US tax reform had a negative impact on the income statements of major German and other European banks.

In 2017, the European Central Bank (ECB) conducted a test on major banks to determine the impact of a significant interest rate increase (benchmark of 200 basis points). The high-level results published on 9 October 2017 showed that an interest rate hike would significantly increase interest income in the subsequent three years, but would also reduce the economic equity of various institutions. The results prompted the ECB to conduct further meetings with 51 of the 111 banks tested regarding calculation methods and measures to reduce interest rate impacts. The German private banking market, which is an important sector for us, is still shaped by a large number of providers, as a result of which the fierce competitive pressure continued undiminished.

In the past year, the three trading venues Xetra, Börse Frankfurt and Tradegate Exchange recorded an order book turnover of EUR 1.47 trillion, an increase of 6.5% compared to 2016 (EUR 1.38 trillion), and the second most successful year since 2012.

3 Bank Vontobel Europe AG

The Bank is represented at five locations. It has its head office and a Wealth Management branch in Munich and branches in Hamburg (Wealth Management), Cologne (Investment Banking / Brokerage), Frankfurt am Main (Investment Banking / Financial Products, Asset Management) and in London (Investment Banking / Brokerage). Effective 1 January 2017, the Bank acquired and took over the operating activities of Vontobel Asset Management S.A., Vienna Branch.

4 Business development of Bank Vontobel Europe AG

In fiscal year 2017, the Bank continued to follow its charted course and strengthened its strategic position within the Group as a hub for the Eurozone and European Economic Area. At year-end 2017, Bank Vontobel Europe AG again reported a positive result for the year. This achievement is largely attributable to strict cost discipline as well as the success of the geographical expansion in Financial Products, increased product placement in Asset Management at institutional customers and customers from the wholesale sector in addition to another noticeable improvement in earnings in Wealth Management.

Our Investment Banking activities include Brokerage and Financial Products.

Brokerage
We increased our market share in brokerage as in the years before. However, equity brokerage activities at our London location were unable to escape the faltering conditions brought about by market changes. As such, the objectives set for the Brokerage business for fiscal year 2017 were again only achieved in part. Our Cologne branch significantly exceeded its targets, due in part to a positive M&A market with corresponding income, while the London branch had to, and still has to, grapple with a sustained difficult market phase with headwind in connection with investors' transactions. For this reason, the London branch could not achieve the turnover forecast for fiscal year 2017. Moreover, MiFID II and MiFIR were looming on the horizon. The substantial changes in the regulatory environment for the provision and payment of research services as of 3 January 2018 and the resulting preparation of new payment models have led to uncertainty among institutional investors and a gradual decline in customer activities in all regions. However, overall the Brokerage business still generated positive earnings of EUR 208k.

Financial Products
In 2017, Financial Products continued systematically its development as the hub of the Vontobel Group for business with structured products within the European Economic. Thanks to the buoyant international stock markets and the expansion of sales activities in Italy, France and the Netherlands, another high profit contribution of EUR 5,175k was made.

Although the unchanged low interest rate environment is discouraging some investors, volumes increased across the board. We consistently expanded our market position in our core market, Germany, where Vontobel has now earned a permanent place among the five largest providers of structured products. In December 2017, Vontobel temporarily held the largest market share based on exchange turnover of all banks operating in this segment, even though the second half of 2017 in particular was dominated by internal project work relating to the forthcoming implementation of MiFID II and MiFIR, which tied up significant resources in all departments. The completion of these preparations laid the foundation for the further expansion of sales activities.

Contrary to expectations, customer activities did not decline in the fourth quarter. Exchange-traded volumes developed as follows in the relevant European markets: In electronic sales to private investors the digitalization strategy was further driven forward with the platform "mein-zertifikat.de." Since the summer of 2017, the products of two new issuers have been available on the platform and 684 products have been ordered. With its marketing platform mein-zertifikat.de, which was launched in the prior year, Vontobel continued down a successful path for the placement of investment products in Germany.

In 2017, Bank Vontobel Europe AG ranked among the six largest providers of listed structured securities in Germany with a 10% share in the number of in securities offered based on exchange turnover (prior year: 9.0%).

In addition to its established offering in Germany, Austria and Luxembourg, since 2015 the Bank has gradually expanded its sales activities to Sweden and Finland and subsequently to Italy and, in December 2016, France and the Netherlands. In these new countries, the Bank both offers the products and acts as a liquidity provider on the exchange in question, i.e., on the Nordic Derivatives Exchange (NDX) of the Nordic Growth Market in Stockholm (NGM), on the SeDeX market segment of the Borsa Italiana in Milan and the Euronext in Paris and Amsterdam. Currently, Bank Vontobel Europe AG offers a total of 134,117 investment and leveraged products. Investors in Austria and Luxembourg have also had access to the German market for many years as part of a public offering.

As in the prior year, sales activities posted major successes. According to NGM data for 2017, the Bank generated a share in turnover of 9.2% and a share in transactions of 6.8% on the Swedish market and 19.3% and 16.6%, respectively, for Finland (prior year: Sweden 21.1% and 18.6%, respectively; Finland 21.7% and 20.6%, respectively). In Italy, the Bank generated shares in turnover and transactions of 5.3% and 6.6%, respectively (prior year: 1.1% and 0.8%, respectively). In the new markets France and the Netherlands, market shares in terms of exchange turnover was at 0.7% in both countries, and in terms of the number of transactions 1.2% and 1.4%, respectively. Bank Vontobel AG, Zurich, awarded the Bank sales incentives for its efforts in successful expansion, which had a noticeably positive impact on the Bank's earnings.

Asset Management
Asset Management assists Vontobel Asset Management S.A., which has its registered office in Luxembourg, with the distribution of investment funds and acts as a contracting partner for special fund mandates. The business unit benefited from the realignment carried out in 2015 and was able to boost its volume by around 50% in fiscal year 2017. Its profit contribution increased substantially in fiscal year 2017 to EUR 2,818k (prior year: EUR 1,558k), thereby overachieving the business plan for 2017. Driven by customer demand, the wholesale business performed better than the institutional business in 2017, where demand lagged behind because of the low interest rate environment. Furthermore, in 2017, sales activities in the area of sustainable investment were integrated into the German sales unit of Bank Vontobel Europe AG after the takeover of Vescore Deutschland GmbH, Munich, by Vontobel Asset Management S.A., Luxembourg, in the prior year. In view of committed transactions and the corresponding pipeline, we expect to achieve our target for the upcoming fiscal year based on our current business forecast.

Wealth Management
Our Wealth Management business unit continued on its growth path in fiscal year 2017. Increasingly, growth opportunities opened up in the context of consolidation pressure as other market participants discontinued, merged or disposed of business operations. In 2017, headcount was boosted and new relationship managers were hired for the upcoming fiscal year 2018. The attractiveness of Vontobel as an employer and asset manager is based foremost on the consistency of its business model and actors coupled with stability in customer support. Customers also benefit from its transparent cost model free from conflicts of interest, which in particular provides for any inducements received to be passed on in full.

Under these circumstances, we were therefore once again able to generate sustainable earnings and volume growth in 2017, even in a market environment that remained challenging with strong competition from German and foreign private and major banks. We increased assets under management to EUR 1,524m. Although, this increase fell short of our objective, the difference was more than compensated for by cost savings. Net earnings from Wealth Management saw a significant improvement of 50%.

Compared to the prior year, the Bank doubled net income for the year, despite falling somewhat short of the forecast target, largely due to the weak market environment for the London branch's brokerage business.

We are confident that we can stay on this successful course in 2018 through a further increase in personnel.

5 Earnings and financial performance indicators

Assets, liabilities and financial position
The volume of assets managed on behalf of clients increased by EUR 47,114k to EUR 1,524,146k in fiscal year 2017. This is primarily attributable to the acquisition of new clients (EUR 82,390k). Loans and advances to customers showed a balance of EUR 44,758k (prior year: EUR 38,948k) and were fully secured.

Liabilities to customers stood at EUR 156,312k (prior year: EUR 149,291k) and were invested at matching maturities. They solely relate to liabilities payable on demand.

The key foreign currencies were US dollars in an amount equivalent to EUR 14,915k, Swiss francs in an amount equivalent to EUR 3,676k and pounds sterling in an amount equivalent to EUR 753k.

No major investments were made in property and equipment in 2017. Amortization and depreciation were accounted for using the straight-line method in accordance with tax depreciation tables. Intangible assets rose by EUR 1,523k (goodwill) as a result of the takeover of operating activities from Vontobel Asset Management S.A., Vienna branch.

Provisions of EUR 7,441k were recognized, of which EUR 3,730k was recognized for potential bonus payments and EUR 677k for litigation. The pension provision, which is based on an actuarial report, shows a balance of EUR 1,657k. Tax provisions totaling EUR 513k were recognized.

Contingent liabilities amount to EUR 17,498k (prior year: EUR 9,036k) and relate to guarantees.

The portfolio of debt securities decreased from EUR 55,399k in the prior year to EUR 53,846k. The Bank has an excellent capital position of EUR 72,891k (same in the prior year). The equity ratio amounts to approximately 27.75% as of 31 December 2017.

Assets, liabilities and financial position are in order.

Financial performance
The Bank reported net income in accordance with the HGB ["Handelsgesetzbuch": German Commercial Code] of EUR 2,032k in fiscal year 2017 (prior year: EUR 963k). Net interest income amounted to EUR 1,424k (prior year: EUR 1,326k) and net commission income to EUR 32,508k (prior year: EUR 27,884k). Net commission income comprises the Investment Banking (60.3%), Wealth Management (23.1%) and Asset Management (16.6%) business units. The renewed positive performance in all three business units was analyzed in the previous chapter (chapter 4).

Personnel expenses increased in 2017 to EUR 16,462k (prior year: EUR 14,505k) as a result of new hires and salary increases. Other administrative expenses rose to EUR 14,043k (prior year: EUR 12,150k), primarily due to higher marketing costs.

At EUR 2,125k, the result from ordinary activities was once again positive in fiscal year 2017. This is largely thanks to the successful geographical expansion in Financial Products and the placement of high-margin products with institutional and wholesale clients in Asset Management.

The entire prior-year profit of EUR 963k was transferred to Vontobel Holding AG.

The financial performance is in order.

Liquidity position
The liquidity ratio was at 12.94% as of 31 December 2017. Liquidity was ensured at all times in the reporting period. There is a refinancing option at Bank Vontobel AG, Zurich, Switzerland, of CHF 25m.

Undrawn committed credit facilities amounted to EUR 59,976k as of the balance sheet date; the full amount is irrevocable.

For information about non-financial performance indicators, please see section 7.

6 Risks

A conscious and prudent approach to risk is a prerequisite for the sustained, long-term success of Bank Vontobel Europe AG.

Together with the business strategy, our risk strategy forms the basis for sustained integrated management of the Bank and its key business activities. The objective is to ensure liquidity and capital adequacy at all times. The Bank's risk strategy in accordance with Sec. 25a KWG ["Kreditwesengesetz": German Banking Act] in conjunction with AT 4.2 MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management] is derived from its business strategy and is reviewed for appropriateness at least once a year as well as on an ad hoc basis as the need arises.

The Risk Management and Risk Control units ensure that all risks are managed and monitored with the utmost care. Internal capital adequacy must be ensured at all times.

The supervisory board and the management board of Bank Vontobel Europe AG are aware that certain risks will arise due to the nature of the system or business activities. These risks are managed, controlled and included in the internal capital adequacy calculation with a high degree of risk consciousness.

The Bank derives its risk appetite for business-related risks from its business strategy. They are quantified as part of its internal capital adequacy calculation in accordance with AT 4.1 MaRisk ["Mindestanforderungen an das Risikomanagement": Minimum Requirements for Risk Management].

The management board defines risk tolerances for all material risks within the meaning of the MaRisk. These reflect the extent to which the Bank is willing to assume risk. Risk tolerances are defined for the purposes of the internal capital adequacy calculation by setting risk limits for each type of risk. Compliance with the limits is reviewed as part of risk control procedures. This ensures, in particular, that internal capital adequacy is safeguarded at all times. Risk tolerance is determined on the basis of risk coverage potential. This is defined by the Bank's capital position. The Bank's internal capital adequacy plan is based on the going concern approach as set out in BaFin Circular "Supervisory assessment of bank-internal capital adequacy concepts" dated 7 December 2011. The nature and scope of risks actively assumed, tolerated or prevented by means of appropriate measures is determined for all business units, branches and support units. The internal capital adequacy calculation is supplemented by a multiple-year capital planning process.

The most important principles regarding risk management and control are:

- Ensuring the Bank's internal capital adequacy
- Adequacy of the internal control system (ICS) and independent downstream control functions; ensuring adequate risk management and control processes
- Safeguarding future profitability
- Optimizing risk costs

Based on its risk inventory, the Bank currently rates the following risks as material within the meaning of the MaRisk:

- Counterparty credit risk
- Market risk
- Operational risk
- Reputational risk

The Institution currently rates the following risks as not material:

- Liquidity risk

BVED must establish the risk appetite for all material risks in its risk strategy, which describes how risks arising from the business strategy are addressed.

Conversely, in particular the business strategy and the Bank's risk strategy have an impact on the risk profile as the setting of business targets always involves taking on certain risks.

6.1 Counterparty credit risk

The Bank defines and distinguishes counterparty credit risk as follows:

- Credit risk from lending against collateral ("lombard lending")
- Issuer / counterparty risk

Credit risk from lending against collateral ("lombard lending")

Identification

The Bank takes on credit risk when granting lombard loans and guarantee credits to customers.

Assessment

As part of the regular risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates credit risk from lombard loans as immaterial within the meaning of the MaRisk.

Management

Loans are granted based on a standardized process. Organizational structure and powers of authorization, borrowers and loan types as well as credit control are laid down in writing.

Lending is limited to lombard loans and guarantee credits. Foreign currency loans are only granted if maturity matched refinancing is ensured. Lending is generally only done on a secured basis in order to minimize or mitigate credit risk. A credit limit is set for each customer and is exclusively based on the equivalent amount of the pledged customer portfolio. The risk of high individual exposures or industry concentrations in the lending business is limited by loan collateral (lending value of the pledged portfolios) or by the statutory provisions concerning large exposures of Sec. 13 KWG.

The decision-making hierarchy stipulates that a lending decision must always be made by two separate areas (front and back office).

Large exposures (including renewals) within the meaning of Sec. 13 KWG are only granted by unanimous resolution of all general managers.

Credit risk from lombard loans is managed quantitatively as part of the internal capital adequacy calculation (pillar II). The method used for stress testing is determined by the risk factors identified in the risk inventory. The change in risk factors is simulated and the outcome is evaluated. Maximum loss limits (risk limits) are defined for each type of risk in the internal capital adequacy calculation in order to limit risks; they are calculated quarterly. In addition, credit risks are deducted from regulatory capital when determining the risk coverage potential.

Utilization

Utilization under a stress scenario is quantified by assuming an ad hoc price loss for the securities pledged as collateral. Loans with insufficient coverage under the stress simulation are assumed to be in default (credit rating migrated to "default"). The Bank currently assumes an ad hoc price loss of 15%. The stress test parameters are validated on a regular basis. The management board has set a risk limit of EUR 450k. Utilization as of 31 December 2017 was EUR 67k.

Stress test

Utilization under a stress scenario is quantified by assuming an ad hoc price loss for the securities pledged as collateral. Loans with insufficient coverage under the stress simulation are assumed to be in default (credit rating migrated to “default”). The Bank currently assumes an ad hoc price loss of 30% in the stress scenario. The stress test parameters are validated on a regular basis. The management board has set a risk limit of EUR 2,300k. Utilization as of 31 December 2017 was EUR 1,943k.

Monitoring

The Risk & Credit Management organizational unit is responsible for the lending process and monitoring of credit risks from lombard loans. Loans are monitored on a daily basis using overdraft lists automatically generated by the Avaloq system. Insufficiently covered exposures as well as current overdrafts are therefore identified and their adjustment initiated and monitored.

Communication

In cases of overdrafts or insufficient coverage, the relationship managers or portfolio managers are notified by email immediately. Appropriate escalation procedures have been drawn up in writing. Risk & Credit Management provides the management board member responsible for the back office (COO) with an overview of all loan exposures on a weekly and, if necessary, on an ad hoc basis.

The management board is informed of credit risks taken and potential credit risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

Issuer and counterparty risk

Identification

Counterparty credit risk in the form of issuer risk results from the investment of equity. Counterparty credit risk in the form of counterparty risk results from interbank trading. The net interest income generated by the Bank plays a subordinate role in terms of its amount.

The Bank does not aim to achieve short-term trading profit in any of its business segments. It does not acquire any positions in order to speculate or to generate a profit by exploiting a margin.

Assessment

As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates issuer/counterparty risk as material within the meaning of the MaRisk.

Management

The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. BVED uses qualitative instruments to manage and monitor issuer and counterparty credit risk. In order to minimize risk, unsecured credit risks are only entered into with issuers/counterparties who have good credit ratings.

The issuer selection process is set out in writing. The risk is managed by means of issuer/counterparty limits to avoid risk concentrations. Each limit excess or change is resolved by the full management board.

To avoid currency risks, investments are only made in bonds denominated in euros.

Issuer/counterparty risk is taken into account when determining the risk coverage potential (pillar I). The relevant deduction for regulatory capital requirements is calculated under the credit risk standardized approach (CRSA).

Issuer/counterparty risk is managed quantitatively as part of the internal capital adequacy calculation (pillar II). The method used for stress testing is determined by the risk factors identified in the risk inventory. Changes in risk factors are simulated and the outcome is evaluated. The stress scenario is based on all BVED counterparties. Maximum loss limits (risk limits) are defined for each type of risk in the internal capital adequacy calculation in order to limit risks. The calculation is done on a quarterly basis.

Utilization

Utilization is quantified using the stress scenario “migration risk.” In this scenario, an ad hoc rating downgrade by one level (e.g., AAA to AA) is assumed for all counterparties. The potential (expected) loss is then calculated on the basis of current limit utilizations (EAD) and probabilities of default (PD) according to S&P. The loss given default (LGD) is estimated at 70%.

The management board has set a risk limit of EUR 350k. Utilization as of 31 December 2017 was EUR 102k.

Stress test

To quantify the stress scenario, a default of all counterparties with an S&P rating of < A(-) is simulated. In this context, a loss given default (LGD = 70%) is assumed. The probability of default (PD) derived on the basis of the S&P rating is used for the remaining counterparties with a rating of ≥ A(-). The potential loss is calculated on the basis of current limit utilizations (EAD) and the loss given default (LGD). The management board has set a risk limit of EUR 3,000k. Utilization as of 31 December 2017 was EUR 1,650k.

Monitoring
The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. BVED uses qualitative instruments to manage and monitor issuer and counterparty credit risk. In order to minimize risk, unsecured credit risks are only entered into with issuers / counterparties who have good credit ratings. Whenever a limit is exceeded, Risk & Credit Management and the board member responsible for the back office are informed immediately.

Communication
Whenever a limit is exceeded, Risk & Credit Management and the board member responsible for the back office (COO) are informed immediately. In the monthly meetings of the management board, the full board is regularly informed of issuer exposure at the end of every month.

The full management board is informed of issuer / counterparty risks taken and potential issuer / counterparty risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

In a monthly group report, Risk & Credit Management reports the Bank's professional counterparties on an aggregate basis to the functionally responsible organizational unit at Bank Vontobel AG, Zurich. Whenever a limit is exceeded, this is reported on an ad hoc basis.

6.2 Operational risk

Identification
The Bank defines operational risk as the risk of loss resulting from operational activities, i.e., as a result of potentially inadequate or failed processes / systems, employee errors or external factors. This also includes legal risks, compliance risks and outsourcing risks. This risk is broken down into the following categories:

— Internal processes
Losses arising from deficiencies in structures and procedures, in project management, in internal communications or from inappropriate methods and models.

— Employee risks
Losses arising from employee errors, inadequate human resources (quantitative or qualitative) or criminal acts by employees.

— System risks
Losses caused by failed or inadequate IT systems, communications systems or infrastructure.

— Risks from external factors
Losses arising from natural disasters, dependence on suppliers and service providers, political factors or external crime.

Assessment
As part of the regular risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates operational risk as material within the meaning of the MaRisk.

Utilization
To quantify utilization, a percentage share of 10% of the stress scenario is used. The management board has set a risk limit of EUR 900k. Utilization as of 31 December 2017 was EUR 341k.

Stress test
A stress test is used to quantify operational risk. In Operational Risk Self Assessment (ORSA) workshops, the key processes in each business segment are identified and assessed by means of a scoring procedure. This includes an estimate of potential loss. Potential loss amounts are derived using the loss bands defined using the ORSA methodology. Risk-weighted P&L is calculated on the basis of the scoring and the potential loss amount; this is used to determine utilization under stress in the internal capital adequacy calculation. In addition, the balance in the loss database as of the relevant quarterly cut-off date is used as a risk amount. The management board has set a risk limit of EUR 5,000k. Utilization as of 31 December 2017 was EUR 3,405k.

Monitoring
The Risk & Credit Management organizational unit is responsible for performing the ORSA, which is carried out for all business units of the Bank. Risk & Credit Management also manages the loss database. The losses are analyzed and processed accordingly.

The IT & Operation Services organizational unit is responsible for monitoring outsourcing arrangements relating to core banking systems (Avaloq / quirin Bank, Bank Vontobel AG, Zurich) as well as monitoring IT risk (contingency plan, business continuity management).

Communication
The full management board is informed of operational risks taken and potential operational risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by the functional department. From the abovementioned categories, the following operational risks were identified as particularly relevant:

Legal risk

Identification

Legal risks are part of operational risk (external factors) and include the risk of adverse effects arising from non-compliance with legal provisions, new statutory regulations and the invalidity or deficiency of contractually agreed provisions with clients or third parties, infringements of such provisions and lack of enforceability in court. The abstract legal risks are generally high in view of the banking and investment services offered.

Assessment

As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates legal risk as material within the meaning of the MaRisk.

Management

The Legal & Compliance organizational unit is responsible for managing legal risks. In order to minimize risk, standardized forms provided by the Bundesverband deutscher Banken e.V. [Association of German Banks] are used, where possible. Customized contractual forms and general terms and conditions, which form part of the agreements concluded with clients, are prepared by Legal and reviewed by external legal experts if need be. Liability risks are eliminated as far as possible through appropriate documentation.

Monitoring

The Legal & Compliance organizational unit is responsible for the monitoring of legal risks. Complaints management enables the Bank to identify legal risks from the contract and client documentation used. For this purpose, the Bank has implemented a complaints database which is managed by the Compliance organizational unit.

Provisions are appropriately recognized to account for sufficiently concrete liability risks from investment advisory and wealth management.

Communication

The Legal organizational unit regularly reports legal risks to the management board and, if necessary, on an ad hoc basis and to the supervisory board on a quarterly basis in the meetings.

Furthermore, the full management board is informed of legal risks taken and potential legal risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by the functional department.

Compliance risk

Identification

Compliance risks are part of operational risk (process and employee risks, external factors). Due to the Bank's business activities as a credit institution and investment services enterprise, compliance with the relevant provisions, in particular those of the WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act], WpDVerOV ["Wertpapierdienstleistungs-Verhaltens- und Organisationsverordnung": German Ordinance Detailing Rules of Conduct and Organizational Requirements for Companies Offering Investment Services], the KWG ["Kreditwesengesetz": German Banking Act] and the GwG ["Geldwäschegesetz": German Anti-Money Laundering Act], plays a key role.

Assessment

Compliance risks are assessed analytically, including in a compliance risk analysis prepared annually by Compliance. This addresses the following three topics:

I. Analysis in accordance with AT 4.4.2 MaRisk to identify the legal fields which are relevant for BVED and to assess compliance risk coverage based on status quo
II. Risk analysis on securities compliance in accordance with BT 1.2.1.1 MaComp ["Mindestanforderungen an Compliance": Minimum Requirements for Compliance]
III. Risk analysis in accordance with Secs. 25a (1), 25h (1) KWG and Sec. 5 GwG

As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk.

BVED currently rates compliance risk as material within the meaning of the MaRisk.

Management

Sec. 25a KWG and AT 4.4.2 MaRisk establish that every institution must have a compliance function in place in order to counteract risks arising from non-compliance with legal rules and regulations. The Bank devotes the greatest care to compliance with the legal requirements and the standards customary for the industry. The compliance organization is therefore responsible for a large part of the management of reputational risk.

The operational compliance organization is part of the Bank's internal control system (ICS). To meet the legal compliance requirements, the Bank has implemented the following general preventive measures:

- Appointment of a compliance and anti-money laundering officer

- Compliance manual and other compliance instructions
- Classroom and web-based training
- Customer due diligence / World Check
- KYC risk scoring
- Sanction monitoring
- Money laundering monitoring
- Employee trustworthiness checks Avoidance and management of conflicts of interest
- Avoidance and management of conflicts of interest
- Ensuring observance of compliance-relevant legal (supervisory) regulations (in particular the WpHG, KWG, BaFin Circulars)

The compliance manual is the fundamental set of regulations containing the internal compliance framework and relevant processes. The compliance regulations are revised on an ongoing basis by Compliance and modified to meet statutory, procedural or other requirements.

Monitoring
The Legal & Compliance organizational unit is responsible for the monitoring of compliance risks.

Communication
The Compliance organizational unit reports directly to the management board.

Outsourcing risk
Identification
Outsourcing risks are part of operational risk (process risks, external factors). Outsourcing risk is the risk that services are not performed in whole or in part by external service providers for key bank functions.

Outsourcing risk is one of the Bank's material operational risks. In particular the outsourcing of IT services poses a significant risk for the Bank.

Assessment
As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates outsourcing

risk as material within the meaning of the MaRisk.

Management
The principles for the outsourcing of activities to an external service provider are laid down in writing.

Together with the respective functional department, the Risk & Credit Management organizational unit evaluates the risks for each outsourced service before a new business relationship is entered into. Based on the risk analysis, the outsourcing arrangements are categorized into "material" and "immaterial" within the meaning of the MaRisk.

To mitigate risk, the Bank works with experienced providers with an appropriate track record for the services offered. Outsourcing agreements are prepared in consultation with the Legal organizational unit and satisfy standards customary for the industry. They provide the Bank with a sufficiently secure legal position in order to ensure that services are performed reliably.

A contingency plan (business continuity management) is in place for the outsourced IT services. The measures defined in the contingency plan are suitable to prevent damage or mitigate the extent of possible damage.

Monitoring
The relevant functional departments and the Risk & Credit Management organizational unit are responsible for the monitoring of outsourcing risks in the form of a quarterly assessment of the SLA statistics by the IT / OS department. The Bank receives ad hoc reports if necessary.

The IT / OS department regularly reviews the relevant internal audit reports. The relevant reports (especially the IDW AsS 951 report) and the reports by quirin Bank's internal audit department are provided to BVED on an annual basis and evaluated.

Communication
The IT / OS organizational unit informs the management board on an ad hoc basis of existing and potential outsourcing risks posed by the outsourcing partners quirin Bank and Avaloq Sourcing Europe AG. The full management board is informed of outsourcing risks taken and potential outsourcing risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by the functional department.

6.3 Reputational risk
Identification
Reputational risk refers to the possibility that the perception by stakeholders of the Bank's trustworthiness, integrity and competence is significantly impaired by misconduct. Due to the Bank's business model, it is exposed to a potential reputational risk. Loss of integrity can lead to the following consequences for the Bank:
- Supervisory authorities restrict the continuation of the Institution's business activities
- Outflows of client deposits / decrease in AuM

– A lower volume of assets under management leads to decreases in income
– Gestures of goodwill and compensation payments to prevent reputational damage

Reputational risk can take the form of a primary risk, e.g.:
– Unethical conduct on the part of the Bank
– Assistance in tax evasion
– Business relationships with ethically questionable business partners

Reputational risks may also arise as a consequence of other risks, such as:
– Operational risks (in particular legal and compliance risks as well as risks from inadequate or failed processes and systems)
– Business risks such as the risk of a loss of a key client, which can lead to a loss of confidence in the Bank's financial performance

Assessment
As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently classifies reputational risk as material.

Management
BVED uses a wide range of quantitative and qualitative instruments to manage and monitor reputational risk. The Institution aims to manage reputational risk preventively through responsible business policy and management. The procedures laid down in writing in an instruction manual and employee training are intended to prevent misconduct. The Bank has identified the following risk drivers:

Clients / industries / countries
Whenever an account is opened, an extensive review is performed by the Compliance organizational unit (compliance check). This allows reputational risks from customer relationships / countries to be prevented.

Products
New products must be approved as part of a new product process before they are allowed to be offered.

Employees
In order to safeguard behavioral principles within the Vontobel Group, various instructions as well as the Vontobel Group's Code of Conduct, which is binding on and accessible to all employees over the internet, apply to the Bank.

Suppliers / outsourcing
Whenever a service is outsourced, a risk analysis is performed within the meaning of Sec. 25b KWG in conjunction with AT 9 MaRisk. This analysis is performed by the Risk & Credit Management department together with the respective functional departments. The risk analyses for the existing outsourcing arrangements are reviewed at least once per year and, if necessary, on an ad hoc basis, and may be adjusted. The outsourced services are reviewed regularly by the Bank.

Reputational risks are also identified and managed by the annual Operational Risk Self Assessment (ORSA) process held across the Group. Business activities or processes are assessed using a scoring procedure, enabling potential reputational risks to be identified at an early stage. A high risk score must be transformed into a lower one using appropriate measures. As an early warning indicator, Risk & Credit Management analyzes press reports on the Bank. Media resonance is analyzed using an automatically generated alert function on the internet. In addition, the development of client deposits is analyzed monthly for irregularities in order to be able to identify reputational risks at an early stage. Reputational risk is managed quantitatively as part of the internal capital adequacy calculation (pillar II). In this context, maximum loss limits are defined for each type of risk.

Utilization
To quantify utilization, a 2% reduction in assets under management (AuM) is assumed as a result of reputational damage. The related decrease in income is derived on this basis. The management board has set a risk limit of EUR 250k. Utilization as of 31 December 2017 was EUR 183k.

Stress test
To quantify reputational risk, a (further) 20% reduction in AuM is assumed as a result of reputational damage. The related decrease in income is derived on this basis. The management board has set a risk limit of EUR 2,500k. Utilization as of 31 December 2017 was EUR 1,829k.

Monitoring
The Risk & Credit Management organizational unit is responsible for the monitoring of reputational risks.

Communication
The full management board is informed of reputational risks taken and potential reputational risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

6.4 Market risk

The Bank defines and distinguishes market risk as the risk of losses from adverse market price fluctuations. The following relevant market risks were identified as part of the risk inventory:

- Interest rate risk / price risk arising from the investment of equity
- Interest rate risk arising from deposit and lending business
- Currency risk relating to the London branch

Interest rate risk / price risk arising from the investment of equity

Identification

The net interest income generated by the Bank plays a subordinate role both in terms of business and amount. The Bank does not aim to achieve short-term trading profit in any of its business segments (no intention to make a profit in this context). It does not acquire any positions in order to speculate or to generate a profit by exploiting a margin.

Assessment

As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates the interest rate risk / price risk from the investment of equity as material within the meaning of the MaRisk.

Management

The Bank does not aim to generate profits from maturity transformation. The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. BVED uses qualitative instruments to manage and monitor interest rate risk in the banking book. To minimize risk, it only invests in the bonds asset class (primarily government securities). To avoid currency risks, investments are only made in bonds denominated in euros. The selection process for permitted securities is set out in writing. Risk management is based on Bank Vontobel Europe AG's banking book.

Utilization

The utilization of interest rate risk in the banking book is presented in the form of a sensitivity analysis. Interest rate sensitivity is defined as the change in the present value of the banking book in the event of a sudden and unexpected parallel shift in the yield curve by +/- 200 basis points. The management board has set a risk limit of EUR 3,000k. Utilization as of 31 December 2017 was EUR 2,181k.

Stress test

The utilization of interest rate risk in the banking book is presented in the form of a sensitivity analysis. Interest rate sensitivity is defined as the change in the present value of the banking book in the event of a sudden and unexpected parallel shift in the yield curve by +/- 200 basis points. Additional stress components are a +100 basis point shift in the credit spread. The management board has set a risk limit of EUR 4,500k.

Utilization as of 31 December 2017 was EUR 3,292k.

Monitoring

The Risk & Credit Management organizational unit is responsible for the monitoring of market risks. For the purposes of regulatory reporting, Risk & Credit Management prepares the "Basel interest rate risk coefficient" report, which is submitted on a quarterly basis to the Bundesbank by Finance & Controlling.

Communication

The full management board is informed of market risks taken and potential market risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

Interest rate risk arising from lending business

Identification

Deposit and lending business poses the risk of losses when interest rates rise whenever the Bank transforms maturities.

Assessment

The Bank does not aim to generate profits from maturity transformation. Deposits are invested at matching maturities as far as possible to ensure the Bank's solvency at all times. As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates interest rate risk from the deposit and lending business as immaterial within the meaning of the MaRisk. The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. In the deposit business, balance sheet structure risks are minimized by refinancing largely at matching maturities and currencies. Only variable-interest loans are offered in the lending business. Maturity transformation is not used. The loans granted are refinanced by client deposits.

Utilization / stress test
Since, according to the risk inventory, the interest rate risk from lending business is not a material risk within the meaning of the MaRisk, no risk tolerances are defined for this type of risk for the purposes of internal capital adequacy.

Monitoring
The Risk & Credit Management organizational unit is responsible for the monitoring of interest rate risk from lending business. The risk analysis is based on all activities by the Bank related to managing its cash investments. Transaction Banking is responsible for the management of client deposits. Minimum reserve maintenance and money trading has been outsourced to quirin Bank. Deposits are managed in accordance with instructions and in compliance with the counterparty limits defined by the Bank. The policy requires the majority of client deposits to be managed on the basis of matching maturities, interest rates and currencies.

Communication
The full management board is informed of interest rate risks taken and potential interest rate risks from lending business as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

Currency risk relating to the London branch (IB Brokerage)
Identification
The income of the London branch is largely earned in Swiss francs (CHF), while the expenses (wages and salaries, rent, etc.) are chiefly incurred in pound sterling (GBP). The branch's financial statements are prepared in accordance with local GAAP in pound sterling (GBP). As a result, currency risk may emerge as part of the consolidation of the London branch in the financial statements of Bank Vontobel Europe AG.

Assessment
As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the meaning of the MaRisk. The Bank currently rates currency risk from the London Brokerage branch as immaterial within the meaning of the MaRisk.

Management
The London branch is involved in BVED's risk management process. In order to manage currency risk, a limit has been defined for each bank account denominated in foreign currency (CHF, EUR, USD) at the branch. Amounts are converted to euro currency when a certain limit is reached.

Utilization / stress test (stress test event)
Since, according to the risk inventory, the currency risk of the London IB branch is not a material risk within the meaning of the MaRisk, no risk tolerances are defined for this type of risk for the purposes of internal capital adequacy.

Monitoring
The head of the London branch is responsible for the operational monitoring of the currency risk for the branch.

Communication
The full management board is informed of currency risks taken by the London branch and potential currency risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management.

6.5 Liquidity risk
Identification
Due to its business model, the Bank is exposed to liquidity risks. The Bank distinguishes between institution-specific (internal) and market-specific (external) liquidity risks. Refinancing risk arises in the form of net cash outflows when there are temporary mismatches in incoming and outgoing payments, the liquidity reserve is insufficient or when too few diversified sources of funding are available.

— Institution-specific liquidity risk (internal): Call risk
The Bank is exposed to a call risk on the liabilities side of the balance sheet in the event that client deposits are withdrawn (in particular in the case of core deposits). The Bank is also exposed to a call risk on the assets side of the balance sheet in the event that committed credit facilities are drawn.

— Market-specific liquidity risk (external): Product risk
The Bank is exposed to refinancing risk whenever assets (in particular the bond portfolio) can only be sold at a discount due to changes in market prices in a contingent liquidity event.

— Market liquidity risk
The Bank is exposed to refinancing risk whenever assets

(in particular the bond portfolio) can only be sold at a discount due to market disruptions in a contingent liquidity event.

Assessment
As part of the risk inventory, risks are assessed and categorized into material and immaterial risks within the mea-

ning of the MaRisk. The Bank currently rates the liquidity risk as immaterial within the meaning of the MaRisk. The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. The Bank uses a wide range of quantitative and qualitative instruments to manage and monitor liquidity risk. Client deposits (demand and time deposits) are largely managed on the basis of matching maturities and currencies. The equity and liabilities side of the balance sheet (refinancing of client deposits) as well as the assets side of the balance sheet (financing of loans granted) are largely due on demand. Temporary mismatches of cash flows are therefore largely precluded. The Bank does not conduct any refinancing on the money or capital market. It is therefore not currently exposed to refinancing risk as a result of a deterioration in refinancing conditions. The volume of lombard loans refinanced is of minor significance. They are refinanced exclusively by client deposits and not on the money or capital markets. The lombard loans are due on demand. Foreign currency loans are only granted if the Bank can obtain maturity and currency matched refinancing.

The Institution has contingent liabilities from guarantees. The Bank accepts pledged securities accounts as collateral for guarantees granted. There are no further off-balance sheet exposures. No payments are settled via the accounts of BVED in connection with the Bank's activity as a liquidity provider for Investment Banking / Financial Products.

In the event of a liquidity squeeze, the Bank has a refinancing line with Bank Vontobel AG, Zurich, of CHF 25m (approximately EUR 23m). The Bank also currently has a very good liquidity reserve. In accordance with the Bank's investment policies, equity is invested exclusively in highly liquid bonds with good credit ratings. Care is taken to ensure sufficient diversification. The majority of the securities meet the criteria for highly liquid assets within the meaning of Art. 416 et seq. CRR [Capital Requirements Regulation] and are available to the Bank in the event of a liquidity squeeze. Due to the business model, the refinancing structure and the excellent capital position, the Bank does not currently consider there to be an acute liquidity risk. Sufficient liquidity is maintained at all times to prevent liquidity risk.

Management
The Bank's daily transactions and minimum reserve maintenance are outsourced to quirin Bank and monitored by the Transaction Banking organizational unit. Significant events or deviations are reported immediately to the Risk & Credit Management organizational unit and the management board.

The Bank uses the following early warning indicators in order to identify liquidity risks at an early stage:
- Negative trend in client deposits and in net cash outflows
- Concentrations on the assets and / or liabilities side
- Customer dissatisfaction with deposit and lending products
- Decreases in income in the core business (in particular Wealth Management)

The Risk & Credit Management organizational unit reviews the development of client deposits on a monthly basis Changes of >1 % are analyzed. The historical analyses are supplemented by a forward-looking liquidity stress test. Due to the Bank's risk situation, the following stress parameters are used:
- Ad hoc withdrawal of the largest client deposits (top 10), more than 1 % of total liabilities
- Full utilization of all committed but undrawn client credit facilities
- Loss of unsecured refinancing (loss of the refinancing line with Bank Vontobel AG)
- Sale of assets (bond portfolio) at a discount of 10 %

In accordance with BTR 3.1 No. 7 MaRisk, the Bank has to specify what measures are to be taken in the event of a liquidity squeeze. For this purpose, the Bank has prepared a liquidity contingency plan.

Monitoring
The risk management process is the responsibility of the Risk & Credit Management department, which is independent of the front office. The Bank uses a wide range of quantitative and qualitative instruments to manage and monitor liquidity risk.

The regulatory liquidity ratio in accordance with the LiqV ["Liquiditätsverordnung": German Liquidity Ordinance] is calculated on a daily basis by the system and reviewed by the Risk & Credit Management organizational unit. In accordance with regulatory reporting requirements, the liquidity ratio is reported to the Bundesbank on a monthly basis. The liquidity ratio in accordance with the LiqV amounts to 11.37 (as of 31 December 2017). The Transaction Banking organizational unit coordinates money market trading and minimum reserve maintenance with the outsourcing partner quirin Bank.

Communication
The full management board is informed of liquidity risks taken and potential liquidity risks as part of quarterly risk reporting and, if necessary, on an ad hoc basis by Risk & Credit Management. The result of the liquidity stress test is prepared by Risk & Credit Management and notified to the full management board as part of risk reporting.

6.6 Risk situation
Bank Vontobel Europe AG has its risks under control. In addition, the Bank has introduced the necessary controls in order to prevent or minimize risk. Internal capital adequacy is regularly monitored and managed as part of the internal capital adequacy calculation. For the internal capital adequacy calculation, material risks are compared with risk coverage potential. The Bank's internal capital adequacy plan is based on the going concern approach as set out in BaFin Circular "Supervisory assessment of bank-internal capital adequacy concepts" dated 7 December 2011. The Bank's internal capital adequacy was ensured at all times in the fiscal year. There are no discernible risks to the Bank's ability to continue as a going concern.

The regulatory tier 1 capital ratio in accordance with the CRR amounted to 87.38% as of 31 December 2017. The ECB's minimum requirement is 8% for fiscal year 2017. The capital adequacy requirements were satisfied at all times in the fiscal year.

7 Employees and environmental aspects

The entire Group, including Germany, was covered by the new Vontobel Experience campaign in 2017. The Vontobel Group clearly refined its profile with regard to its values, competencies and self-expectations and instilled this into all locations and employees around the world. The values lay the foundation for our corporate culture and serve as a guiding principle for our day-to-day work and dealings with our employees and customers. The qualifications and professionalism of our employees are and undoubtedly remain decisive success factors on the market.

In the fiscal year, we adapted our remuneration system to the revised regulatory requirements of the InstitutsVergV["Institutsvergütungsverordnung": German Ordinance Regarding the Supervisory Requirements for Remuneration Systems of Institutions]. The revised remuneration policy meets the current requirements and is consistent with the requirements of the Vontobel Group.

The Bank's total headcount at year-end was 91 employees; this included 4 management board members (prior year: 82 employees including 3 management board members). In Investment Banking / Financial Products, Asset Management and Wealth Management, we expect a further increase in headcount in 2018.

Vontobel remains unswerving in its high commitment to sustainability. To this end, it focuses strongly on sustainable investment products, for example, these being investments that take into account financial, environmental and social factors.

We place an emphasis on reducing our environmental footprint in our day-to-day banking operations, attaching great importance to climate protection as well as the conservative and environmentally friendly use of materials and purchased resources. For instance, we switched to 100% recycled paper for all our paper needs in 2017. We also did away with artificial optical whiteners and bleaches which pose an additional risk to the environment. The annual energy audit is used to identify optimization measures for the gradual reduction of energy consumption, such as our large-scale conversion to energy-saving lighting.

The sustainability rating agency Inrate once again gave the Vontobel Group a rating that is well above average based on environmental and social criteria and thus classifies the Institution as "sustainable."

Our progress is measured regularly and forms part of the Group's sustainability report.

8 Market outlook for 2018

Vontobel's investment strategists expect chances in 2018 to be rather good that, at least in the first half of the year, the positive signals will continue to prevail, based on a perfect environment in which the economy does not heat up to such an extent that price pressure arises, but does not cool down to such an extent that a recession looms. Such an economic environment is characterized by a low unemployment rate, rising asset prices, low interest rates and stable GDP growth. In its economic forecast dated 13 December 2017, the German Institute for Economic Research (DIW) regards Germany to be in an economic boom phase, but not headed towards overheating. Such

an environment benefits both the equity and corporate bond markets. By contrast, returns on government bonds from core European countries may be under pressure because the central banks, principally the Fed, are skimming off liquidity. Given the high valuation of the equity and bond markets in absolute terms, we would recommend a gradual increase in alternative forms of investment. These have the characteristic that they do not develop in tandem with other investment classes. Market participants are now fairly confident, but in no way euphoric. The outlook for 2018 is good, but is wise to remain alert.

Europe in particular is still struggling with its own homegrown issues. Brexit and strong nationalistic tendencies emerging in central Europe are a crucible for the stability of the European Community. The growth forecasts below are therefore subject to substantial uncertainty and may be adjusted radically. German GDP growth estimates are currently 1.9% (German federal government), 2.5% (IMF) and 2.2% (DIW). In its most likely scenario, Vontobel is currently anticipating GDP growth in the Eurozone of 2.1% for 2018.

9 Business outlook for 2018

After its third consecutive profitable fiscal year, we consider the Bank to be well equipped to stand its ground in the future competitive environment and in times of growing consolidation. To this end, we will single-mindedly continue on our charted course in 2018. We intend to further expand Wealth Management through organic growth, thereby achieving net new money growth of around EUR 133m and consequently growth in AuM to EUR 1,685m (the forecast for 2017 was EUR 205m and EUR 1,589m, respectively). This is expected to result in income from Wealth Management of around EUR 7.7m. In 2018, Financial Products will focus on expanding its product offering in Europe. After the successful establishment of its leveraged products offering in France and the Netherlands, it will now drive forward further expansion in Italy, Sweden and Finland in the investment product segment as well. It is also investigating market entries in Norway and Denmark. Its goal for 2018 is to offer a product range that is relevant to the market environment in all European core markets and is tailored to each specific market. We expect Financial Products to generate income of around EUR 13.2m from all its activities in the coming fiscal year.

Brokerage activities are expected to bring us net income of approximately EUR 1.8m in 2018. In light of the pending Brexit and the misgivings, including regulatory uncertainties, we expect the market environment to remain difficult for London. In Asset Management, we see encouraging prospects for expanding our business model, especially in the fixed income and equities investment classes, and establishing the multi-asset sector. In 2018, we expect net income to total around EUR 5.96m.

We will continue to address the growing regulatory requirements by continuing to pursue a sound approach especially in the back office. Consequently, 2018 will see a consolidation of the newly established MiFID II processes across all our business units and the implementation of the General Data Protection Regulation.

Additional personnel expenses will be in the single-digit percentage area after the increase in the bonus cap for variable remuneration as well as due to the planned new hires in Wealth Management. Administrative expenses are expected to remain stable or increase slightly.

Overall, in 2018 we expect the Bank to build slightly on the profitability it has achieved since 2015. We anticipate continued strong growth potential particularly as the EU hub of the Vontobel Group for Financial Products. We also expect that the Bank will benefit from the ongoing wave of consolidations in the private banking sector and the desire of many customers, prospective customers and customer advisors for an independent, strongly capitalized and well positioned private bank.

With these conditions in place, the Bank remains an attractive employer for new hires.

10 Concluding statement in accordance with Sec. 312 (2) Sentence 1 AktG

Since there is no domination agreement in place with the majority shareholder, the management board of Bank Vontobel Europe AG, Munich, was obliged to prepare a report on relationships with affiliates pursuant to Sec. 312 AktG ["Aktiengesetz": German Stock Corporation Act]. This report included the relationships with Vontobel Holding AG, Zurich, and the entities belonging to the Vontobel Group.

Pursuant to Sec. 312 (3) Sentence 1 AktG, the management board declared that, with regard to the legal transactions and acts or omissions stated in the report on relationships with affiliates, the Institution received appropriate consideration for each legal transaction and was not prejudiced by any act or omission according to the circumstances known to it at the time transactions were concluded or at the time of any act or omission.

Munich, 1 February 2018

Stefan Armbruster, management board member

Thomas Fischer, management board member

Andreas Heinrichs, management board member

Jürgen Kudszus, management board member

Audit opinion

Translation from the German language

Independent auditor's report

To Bank Vontobel Europe AG

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of Bank Vontobel Europe AG, Munich, which comprise the balance sheet as at 31 December 2017, and the income statement for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Bank Vontobel Europe AG for the fiscal year from 1 January 2017 to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2017 and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Translation from the German language

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Translation from the German language

Recognition of commission income from the Investment Banking (Financial Products) and Wealth Management business units

Reasons why the matter was determined to be a key audit matter: Bank Vontobel Europe AG generates commission income in the Investment Banking (Financial Products) business unit within the Group largely by providing services in connection with the marketing/distribution/purchase and sale of structured products on European exchanges and in the Wealth Management business unit by mainly providing asset management and investment advisory services to customers. Given the high volumes and materiality of the commission income from the Investment Banking (Financial Products) and Wealth Management business units for the annual financial statements and given the fact that commission income is a financial performance indicator for Bank Vontobel Europe AG for the purpose of corporate management and forecasting, we determined this to be a key audit matter.

Auditor's response: The measurement basis for the billing of services in the Investment Banking (Financial Products) business unit is primarily the costs incurred by Bank Vontobel Europe AG for these services. With regard the measurement of commission income from the Investment Banking (Financial Products) business unit, we used a controls-based approach during the audit and examined the underlying business processes and controls relating to the verification of the factual and arithmetical accuracy of incoming invoices and the recording of incoming invoices in the accounting system. We assessed and tested the operating effectiveness of the implemented controls. Our procedures also included a sample-based review of significant contracts for proper inclusion of the agreed commission rates in the calculation of the commission amounts. We also performed data analyses of transactions posted during the year and year-end cut-off postings to identify, among other things, any anomalous monthly fluctuations. We analyzed any identified anomalous fluctuations further by obtaining explanations during discussions with Bank Vontobel employees.

Translation from the German language

With regard to the measurement of commission income from the Wealth Management business unit, we used a controls-based approach during the audit and examined the underlying business processes and controls relating to the recording and amendment of contract data in the accounting system. We assessed and tested the operating effectiveness of the implemented controls. We recalculated a sample of different commission billing types which are calculated using IT to check the correct calculation of the commission amount based on the commission rates agreed in the customer contract documents and the assets under management according to the customer securities account statements. We also performed data analyses of transactions posted during the year and year-end cut-off postings to identify, among other things, any anomalous monthly fluctuations. We analyzed any identified anomalous fluctuations further by obtaining explanations during discussions with Bank Vontobel employees.

Our procedures did not lead to any reservations concerning the recognition of commission income from the Investment Banking (Financial Products) and Wealth Management business units.

Reference to related disclosures: The information provided by the management board regarding the principles of recognizing commission income is included in the section “Accounting and valuation methods” in the notes to the financial statements. Furthermore, the management board explains the significance of commission income in the context of corporate management and with regard to business performance and forecasting in section 4 “Business development of Bank Vontobel Europe AG,” 5 “Earnings and financial performance indicators” and 9 “Business outlook for 2018” in the management report.

Other information

The executive directors are responsible for the other information. The other information comprises the information obtained up to the date of this auditor’s report regarding Bank Vontobel Europe AG’s locations contained in the section “Our locations” of the annual report for 2017.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

Translation from the German language

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

Translation from the German language

The supervisory board is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Translation from the German language

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report 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 these systems of the Institution.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.

Translation from the German language

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Translation from the German language

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 23 March 2017. We were engaged by the supervisory board on 28 September 2017. We have been the auditor of Bank Vontobel Europe AG without interruption since fiscal year 2009.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services to the Institution:

- Audit of custody operations and investment services business pursuant to Sec. 36 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act];
- Information event.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Ms. Karin Braun.

Munich, 8 February 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

[signed]	[signed]
Braun	Bauer
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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LEGAL INFORMATION

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