BASE LISTING DOCUMENT DATED 6 MARCH 2018

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

*Hong Kong Exchanges and Clearing Limited ("**HKEX**"), The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and Hong Kong Securities Clearing Company Limited ("**HKSCC**") take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.*

Non-collateralised Structured Products Base Listing Document relating to Structured Products to be issued by

Bank Vontobel AG

(Incorporated in Zurich, Switzerland)

unconditionally and irrevocably guaranteed by

Vontobel Holding AG

(incorporated in Zurich, Switzerland)

Sponsor

Vontobel Limited

This document, for which we and Vontobel Holding AG (the "**Guarantor**") accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to us, the Guarantor and our warrants (the "**Warrants**"), callable bull/bear contracts ("**CBBCs**") and other structured products (together, the "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda. You must ask us if any addenda to this document have been issued.

Our obligations under the Structured Products are guaranteed by the Guarantor under a guarantee executed by the Guarantor dated as of 6 March 2018 (the "**Guarantee**"). We and the Guarantor, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

These are Structured Products involving derivatives. You should not invest in the Structured Products unless you fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person, and the Guarantee in respect of the Structured Products constitutes the general unsecured contractual obligations of the Guarantor and of no other person. The Structured Products will rank equally among themselves and with all our other unsecured obligations and all other unsecured obligations of the Guarantor (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and the creditworthiness of the Guarantor and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index. If we become insolvent or default on our obligations under the Structured Products or the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

CONTENTS

IMPORTANT INFORMATION

You should carefully study the risk factors set out in this document and the Listing Documents

What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

A launch announcement and supplemental listing document of each series of Structured Products will set out the detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time) together with such launch announcement and supplemental listing document (including any addendum to such launch announcement and supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Products. You should carefully study the risk factors set out in the Listing Documents.

Is there any guarantee or collateral for the Structured Products?

Our obligations under the Structured Products are unconditionally and irrevocably guaranteed by the Guarantor. If we become insolvent or default on our obligations under the Structured Products and the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you can only claim as an unsecured creditor of the Issuer and the Guarantor. In such event, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

What are the Guarantor's credit ratings?

The Guarantor's long term credit ratings as of the date immediately preceding the date of this document is:

Rating agency	*Rating*
Moody's Investors Service, Inc. ("**Moody's**")	A3 (stable outlook)

The credit ratings are only an assessment by the rating agencies of the Guarantor's overall financial capacity to pay its debts respectively.

A3 is among the top three major credit rating categories and is the seventh highest investment-grade ranking of the ten investment-grade ratings (including 1, 2 and 3 sub-grades) assigned by Moody's.

Please refer to the brief guide in Appendix 4 to this document to what such credit ratings mean.

Rating agencies usually receive a fee from the companies that they rate. When evaluating the Guarantor's creditworthiness, you should not solely rely on the Guarantor's credit ratings because:

(a) a credit rating is not a recommendation to buy, sell or hold the Structured Products;

(b) credit ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;

(c) a high credit rating is not necessarily indicative of low risk. The Guarantor's credit ratings as of the above date are for reference only and may be subject to change thereafter. Any downgrading of the Guarantor's credit ratings could result in a reduction in the value of the Structured Products;

(d) a credit rating is not an indication of the liquidity or volatility of the Structured Products; and

(e) a credit rating may be downgraded if the credit quality of the Guarantor declines.

The Structured Products are not rated.

The Guarantor's credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to the Guarantor's credit ratings from time to time. You may visit https://www.vontobel.com/en-ch/about-vontobel/investor-relations/credit-ratings/ to obtain information about the credit ratings of the Guarantor.

Is the Issuer or the Guarantor regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3)?

The Issuer is subject to prudential supervision and regulated by the Swiss Federal Financial Markets Regulator ("**FINMA**"), while the Guarantor, as the parent group company, is subject to complementary, consolidated group supervision by FINMA. Neither the Issuer nor the Guarantor is regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3).

Is the Issuer or the Guarantor subject to any litigation?

Save as disclosed in this document, the Issuer, the Guarantor and their respective subsidiaries ("**Vontobel Group**") are not aware of any litigation or claims of material importance pending or threatened against any of them.

Authorisation of the Structured Products

The issue of the Structured Products was authorised by our board of directors on 28 January 2016. The giving of the Guarantee was authorised by resolutions of the board of directors of our Guarantor on 28 January 2016.

Has the financial position of the Issuer or the Guarantor changed since last financial year-end?

Save as disclosed in this document, there has been no material adverse change in the Issuer's or the Guarantor's financial or trading position since 31 December 2017.

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission ("**SFC**") charges a transaction levy of 0.0027 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

You may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of your purchase in addition to the issue price of each Structured Product. See the section headed "Taxation" for further information.

Placing, sale and grey market dealings

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us or the Guarantor. See the section headed "Placing and Sale" for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party. The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by any member of the Vontobel Group in the grey market to the Stock Exchange on the listing date through the website of the HKEX at *www.hkex.com.hk*.

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (except public holidays) at Vontobel Limited, 1901 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong:

(a) our latest audited financial statements and interim or quarterly financial statements (if any)

(b) the Guarantor's latest audited financial statements and interim or quarterly financial statements (if any);

(c) the consent letters from auditors of the Issuer and the Guarantor, Ernst & Young Ltd (the "**Auditors**");

(d) this document and any addendum to this document;

(e) the launch announcement and supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange;

(f) the instrument executed by us on 18 August 2017 which constitutes the Structured Products; and

(g) the Guarantee.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the costs of making such copies.

The Listing Documents are also available on the website of the HKEX at *http://www.hkex.com.hk/eng/dwrc/search/listsearch.asp* and our website at www.vontobelwarrants.com.

各上市文件亦可於香港交易所網站 (*http://www.hkex.com.hk/chi/dwrc/search/listsearch_c.asp*) 及我們的網站 (www.vontobelwarrants.com) 瀏覽。

Have the Auditors consented to the inclusion of their reports in this document?

As at the date of this document, the Auditors have given and have not withdrawn their written consent to the inclusion of their reports dated 6 February 2018 on the consolidated financial statements of the Issuer and the Guarantor for the year ended 31 December 2017 in this document and/or the references to their names in the Listing Documents, in the form and context in which they are included. Their reports were not prepared for incorporation into this document.

The Auditors do not hold the Guarantor's shares or shares in its subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the Guarantor's securities or securities of any of its subsidiaries.

How can you get further information about the Guarantor?

You may visit our website at https://www.vontobel.com/INT/EN/Home to obtain further information about us and/or the Guarantor.

You must note that the information on our website will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by us, including the Structured Products.

Authorised representatives

Tobias Steiner and Raymond Yi of 1901 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, are our authorised representatives and are authorised to accept services on our behalf in Hong Kong.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us, the Guarantor or our respective affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us or the Guarantor.

The Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions set out in Appendix 1 and the Product Conditions applicable to the relevant series of Structured Products set out in Appendices 2 and 3 respectively (together, the "**Conditions**").

OVERVIEW OF WARRANTS

What is a derivative warrant?

A derivative warrant linked to a share, a unit, an index or other assets (each an "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" an Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price or Strike Level (as the case may be) on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

Our Warrants are European Style warrants. This means they can only be exercised on the Expiry Date.

A Warrant will, upon exercise on the Expiry Date, entitle you to a cash amount called the "**Cash Settlement Amount**" (net of any Exercise Expenses) (if positive) according to the applicable Conditions.

You will receive the Cash Settlement Amount less any Exercise Expenses upon settlement at expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you and you will lose your entire investment.

How do our Warrants work?

Ordinary Warrants

The potential payoff upon expiry or exercise of the Warrants is calculated by us by reference to the difference between:

(a) for a Warrant linked to a share or unit, the Exercise Price and the Average Price; and

(b) for a Warrant linked to an index, the Strike Level and the Closing Level.

Call Warrants

A call Warrant is suitable to you if you hold a bullish view on the price or level of the Underlying Asset during the term of that call Warrant.

A call Warrant will be exercised if the Average Price or Closing Level is greater than Exercise Price or Strike Level (as the case may be). The more the Average Price or Closing Level exceeds the Exercise Price or Strike Level (as the case may be), the higher the payoff upon expiry or exercise. If the Average Price or Closing Level is at or below the Exercise Price or Strike Level (as the case may be), you will lose all your investment.

Put Warrants

A put Warrant is suitable to you if you hold a bearish view on the price or level of the Underlying Asset during the term of that put Warrant.

A put Warrant will be exercised if the Average Price or Closing Level is below the Exercise Price or Strike Level (as the case may be). The more the Average Price or Closing Level is below the Exercise Price or Strike Level (as the case may be), the higher the payoff upon expiry or exercise. If the Exercise Price or Strike Level is at or below the Average Price or Closing Level (as the case may be), you will lose all your investment.

Where can you find the Product Conditions applicable to our Warrants?

You should review the Product Conditions applicable to each type of the Warrants before your investment.

The Product Conditions applicable to each type of our Warrants are set out in Parts A to C of Appendix 2 (as may be supplemented by any addendum and/or the relevant launch announcement and supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a Warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a Warrant, its price will be influenced by one or more of the following factors, including:

(a) the Exercise Price or Strike Level applicable to that Warrant;

(b) the value and volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset);

(c) the time remaining to expiry: generally, the longer the remaining life of the Warrant, the greater its value;

(d) the interim interest rates;

(e) the expected dividend payments or other distributions (if any) on the Underlying Asset or on any components comprising the underlying index;

(f) the liquidity of the Underlying Asset or of the futures contracts relating to the underlying index;

(g) the supply and demand for the Warrant;

(h) our related transaction costs; and

(i) our creditworthiness and the creditworthiness of the Guarantor.

What is your maximum loss?

Your maximum loss in our Warrants will be your entire investment amount plus any transaction costs.

How can you get information about the Warrants after issue?

You may visit the HKEX's website at *http://www.hkex.com.hk/products/securities/derivative-warrants?sc_lang=en* or our website at www.vontobelwarrants.com to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our Warrants.

OVERVIEW OF CBBCS

What are CBBCs?

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

(a) securities listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index; and/or

(c) overseas securities, overseas indices, currencies, commodities (such as oil, gold and platinum), commodity futures or other assets as prescribed by the Stock Exchange from time to time.

A list of eligible Underlying Assets for CBBCs is available on the website of the HKEX at *http://www.hkex.com.hk/products/securities/callable-bull-bear-contracts/cbbc-eligible-underlying-assets/eligible-single-hong-kong-stocks-for-cbbc-issuance-in-current-quarter?sc_lang=en*.

CBBCs are issued either as callable bull contracts ("**bull CBBCs**") or callable bear contracts ("**bear CBBCs**"), allowing you to take either bullish or bearish positions on the Underlying Asset.

Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset.

Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See "What are the mandatory call feature of CBBCs?" below.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs.

If no Mandatory Call Event occurs, the CBBCs will be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any). The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price or Closing Level of the Underlying Asset on the Valuation Date and the Strike Price or Strike Level.

The Conditions applicable to CBBCs are set out in Parts A, B and C of Appendix 3 (as may be supplemented by any addendum or the relevant launch announcement and supplemental listing document).

What are the mandatory call feature of CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price or Spot Level of the Underlying Asset is:

(a) at or below the Call Price or Call Level (in the case of a series of bull CBBCs); or

(b) at or above the Call Price or Call Level (in the case of a series of bear CBBCs),

at any time during the Observation Period.

The Observation Period starts from and including the Observation Commencement Date of the relevant CBBCs and ends on and including the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event; and

(b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session, will be invalid and cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities ("**Single Equity CBBCs**") or CBBCs over single unit trust ("**Single Unit Trust CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (for a series of bull CBBCs) or is at or above the Call Price (for a series of bear CBBCs); or

(b) in respect of CBBCs over index ("**Index CBBCs**"), the time the relevant Spot Level is published by the index compiler at which the Spot Level is at or below the Call Level (for a series of bull CBBCs) or is at or above the Call Level (for a series of bear CBBCs),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category R CBBCs vs. Category N CBBCs

The launch announcement and supplemental listing document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category N CBBCs**" refer to CBBCs for which the Call Price or Call Level is equal to their Strike Price or Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

"**Category R CBBCs**" refer to CBBCs for which the Call Price or Call Level is different from their Strike Price or Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the "**Residual Value**" (net of any Exercise Expenses) upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of a series of bull CBBCs, the difference between the Minimum Trade Price or Minimum Index Level and the Strike Price or Strike Level of the Underlying Asset; and

(b) in respect of a series of bear CBBCs, the difference between the Strike Price or Strike Level and the Maximum Trade Price or Maximum Index Level of the Underlying Asset.

You must read the applicable Product Conditions and the relevant launch announcement and supplemental listing document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

You may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Minimum Trade Price or Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price or Strike Level; or

(b) in the case of a series of bear CBBCs, the Maximum Trade Price or Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price or Strike Level.

Where can you find the Product Conditions applicable to our CBBCs?

You should review the Product Conditions applicable to each type of the CBBCs before your investment.

The Product Conditions applicable to each type of our CBBCs are set out in Appendix 3.

How is the funding cost calculated?

The issue price of a series of CBBCs is set by reference to (i) the difference between the initial reference spot price or level of the Underlying Asset as at the launch date of the CBBC and the Strike Price or Strike Level, plus (ii) if applicable, a funding cost.

The initial funding cost applicable to the CBBCs as of the launch date will be specified in the relevant launch announcement and supplemental listing document for the relevant series.

The funding cost is an amount determined by us based on a number of factors, including but not limited to the Strike Price or Strike Level, the prevailing interest rate, the expected life of the CBBCs and the expected dividend/distribution yield in respect of the Underlying Asset.

The funding cost may fluctuate throughout the life of the CBBCs as the funding rate changes from time to time.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant launch announcement and supplemental listing document.

Do you own the Underlying Asset?

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of the Vontobel Group to sell, pledge or otherwise convey all rights, titles and interests in any Underlying Asset or any derivatives products linked to the Underlying Asset.

What are the factors determining the price of a CBBC?

The price of a series of CBBCs tends to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one unit of Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price or Strike Level and the Call Price or Call Level;

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) any change(s) in the interim interest rates;

(f) the expected dividend payments or other distribution on the Underlying Asset or on any components comprising the underlying index;

(g) the probable range of the Cash Settlement Amount;

(h) the supply and demand for the CBBCs;

(i) the liquidity of the Underlying Asset or of the future contracts relating to the underlying index;

(j) our related transaction costs; and/or

(k) our creditworthiness and the creditworthiness of the Guarantor.

What is your maximum loss?

Your maximum loss in CBBCs will be your entire investment amount plus any transaction cost.

How can you get information about the CBBCs after issue?

You may visit the HKEX's website at *http://www.hkex.com.hk/products/securities/callable-bull-bear-contracts?sc_lang=en* or our website at www.vontobelwarrants.com to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

DESCRIPTION OF THE ISSUER

Incorporation

The Issuer is a company incorporated in Zurich, Switzerland on 3 January 1984, having its registered office at Gotthardstrasse 43, CH-8022 Zurich.

Share capital

The share capital of the Issuer is composed of CHF 149,000,000 divided into 149,000 shares of CHF 1,000 each.

All shares are registered shares.

Organisation structure

The Issuer is a Swiss bank with headquarter in Zurich, Switzerland. It is a wholly owned subsidiary of the Guarantor and therefore part of the Vontobel Group.

Business overview

The Company's business policy pursues interests at the national and international level and may engage in all activities directly or indirectly associated with this purpose as well as all activities conducive to the promotion of this purpose for its own account or for third-party account, including but not limited to:

(a) receipt of funds in all forms customary for banks, including savings;

(b) granting of all kinds of loans with and without cover;

(c) granting of sureties and guarantees;

(d) purchase and sale of securities, foreign exchange, foreign funds and commodities for the own account and third-party account;

(e) takeover and placement of securities of domestic and foreign issuers;

(f) investment consulting, performance of asset management and liquidation, execution of wills and estate liquidation;

(g) custodianship and management of securities and valuables;

(h) issue of cheques and letters of credit;

(i) collaboration in the establishment and management of investment funds;

(j) performance of fiduciary transactions;

(k) commercial activities in the form of services; and

(l) advisory activities, especially in the fields of tax, inheritance and company law.

Management

The Board of Directors has ultimate responsibility for the strategy and management of the Issuer and for the supervision of its executive management.

The following table sets forth the names of the current members of the Board of Directors and their current functions as at 31 December 2017:

Board of Directors	Title
Herbert J. Scheidt	Chairman
Dr Frank Schnewlin	Deputy Chairman
Bruno Basler	Member
Dr Maja Baumann	Member
Dr Elisabeth Bourqui	Member
David Cole	Member
Nicolas Oltramare	Member
Clara C. Streit	Member
Björn Wettergren	Member

DESCRIPTION OF THE GUARANTOR

Incorporation

The Guarantor is a company incorporated in Zurich, Switzerland in 17 June 1936. The principal place of business of the Guarantor is Gotthardstrasse 43, CH-8002 Zurich, Switzerland.

Share capital

The share capital of the Guarantor is composed of CHF 56,875,000 divided into 56,875,000 shares of CHF 1 each.

All shares are registered shares.

Organisation structure

The Guarantor is the sole shareholder of the Issuer and is headquartered in Zurich, Switzerland.

Business overview

The Guarantor is the parent company of the Vontobel Group. The business activities of the Vontobel Group comprise the following activities:

Private Banking – Private Banking encompasses portfolio management services for private clients, investment advisory, custodian services, financial advisory services relating to legal, inheritance and tax matters, lending against collateral, pension advice and wealth consolidation services.

Asset Management – Asset Management specializes in active asset management, and is positioned as a multi-boutique provider. Its products are distributed to institutional clients, indirectly through wholesale channels, and also by cooperation partners.

Investment Banking – Investment Banking focuses on the structured products and derivatives business, services for external asset managers, brokerage, corporate finance, securities and foreign exchange trading, and securities services supplied by Transaction Banking.

Management

The Board of Directors has ultimate responsibility for the strategy and management of the Guarantor and the Vontobel Group and for the supervision of its executive management.

The following table sets forth the names of the current members of the Board of Directors and their current functions as at 31 December 2017:

Board of Directors	**Title**
Herbert J. Scheidt	Chairman
Dr Frank Schnewlin	Vice-Chairman
Bruno Basler	Member
Dr Maja Baumann	Member
Dr Elisabeth Bourqui	Member
David Cole	Member
Nicolas Oltramare	Member
Clara C. Streit	Member
Björn Wettergren	Member

Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant launch announcement and supplemental listing document.

General risks in relation to us and the Guarantor

Non-collateralised Structured Products

The Structured Products are not secured on any of our or the Guarantor's assets or any collateral. Each series of Structured Products will constitute our general unsecured contractual obligations and of no other person and will rank pari passu with our other unsecured contractual obligations. The obligations of the Guarantor under the Guarantee will represent the general unsecured contractual obligations of the Guarantor and of no other person and will rank pari passu with the other unsecured contractual obligations of the Guarantor. At any given time, the number of Structured Products outstanding may be substantial.

Creditworthiness

If you purchase our Structured Products, you are relying upon our creditworthiness and the creditworthiness of the Guarantor and have no rights under the Structured Products against:

(a) any company which issues the underlying shares;

(b) the trustee or the manager of the underlying trust; or

(c) any index compiler of the underlying index

As our obligations under the Structured Products are unsecured, we do not guarantee the repayment of capital invested in any Structured Product.

If we become insolvent or default on our obligations under the Structured Products or the Guarantor becomes insolvent or defaults on its obligations under the Guarantee, you can only claim as our or the Guarantor's unsecured creditor regardless of the performance of the underlying asset and you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Any downgrading of the Guarantor's rating by rating agencies such as Moody's could result in a reduction in the trading value of the Structured Products.

Swiss resolution and recovery regime

Under the Swiss Banking Act, FINMA is able to exercise broad statutory powers with respect to Swiss banks, such as Bank Vontobel AG, and Swiss parent companies of financial groups, such as, Vontobel Holding AG, if there is justified concern that the entity is over-indebted, has serious liquidity problems or, after the expiration of any relevant deadline, no longer fulfils capital adequacy requirements. Such powers include ordering protective measures, instituting restructuring proceedings (and exercising any Swiss resolution powers in connection therewith), and instituting liquidation proceedings, all of which may have a material adverse effect on our shareholders and creditors or may prevent Vontobel Holding AG or Bank Vontobel AG from paying dividends or making payments on debt obligations.

Protective measures may include, but are not limited to, certain measures that could require or result in a moratorium on, or the deferment of, payments. We would have limited ability to challenge any such protective measures.

Additionally, creditors would have no right under Swiss law or in Swiss courts to reject, seek the suspension of, or challenge the imposition of any such protective measures, including those that require or result in the deferment of payments owed to creditors.

If restructuring proceedings are opened with respect to Vontobel Holding AG or Bank Vontobel AG, the resolution powers, which FINMA may exercise, include the power to (i) transfer all or some of the assets, debt and other liabilities, and contracts of the entity subject to proceedings to another entity, (ii) stay for a maximum of two business days the termination of, or the exercise of rights to terminate, netting rights, rights to enforce or dispose of certain types of collateral or rights to transfer claims, liabilities or certain collateral, under contracts to which the entity subject to proceedings is a party, and/or (iii) partially or fully write down the equity capital and, if such equity capital is fully written down, convert into equity or write down the capital and other debt instruments of the entity subject to proceedings. Shareholders and creditors would have no right to reject, or to seek the suspension of, any restructuring plan pursuant to which such resolution powers are exercised. They would have only limited rights to challenge any decision to exercise resolution powers or to have that decision reviewed by a judicial or administrative process or otherwise.

FINMA has broad powers and significant discretion in the exercise of its powers in connection with a resolution proceeding. Certain categories of debt obligations, such as certain types of deposits, are protected. As a result, holders of obligations of an entity subject to a Swiss restructuring proceeding may have their obligations written down or converted into equity even though obligations ranking on par with or junior to such obligations are not written down or converted.

In any event, the exercise of any resolution power by the relevant resolution authorities in respect of Vontobel Holding AG or Bank Vontobel AG could materially adversely affect the value of the Structured Product, and you may not be able to recover part or even all of the amount due under the Structured Product.

Repurchase of our Structured Products

The Vontobel Group may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or at the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

No deposit liability or debt obligation

In respect of cash settled Structured Products, we have the obligation to deliver to you the Cash Settlement Amount (net of any Exercise Expenses) in accordance with the Conditions of each series of Structured Products upon expiry.

It is not our intention by the issue of any Structured Product (expressed, implicit or otherwise) to create a deposit liability of us or the Guarantor or a debt obligation of any kind.

Conflicts of interest

The Vontobel Group engages in commercial, banking and other activities for our own account or the account of others and, in connection with our other business activities, may possess or acquire material information about the Underlying Assets to which the relevant Structured Product is linked. Such activities may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities and/or exercise of creditor rights. The Vontobel Group:

(a) has no obligation to disclose such information about the Underlying Assets or such activities. The Vontobel Group and our respective officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

(b) may from time to time engage in transactions involving the Underlying Assets for its accounts and/or for accounts under its management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price or level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share or other security or in a commercial banking capacity for the issuer of any share or other security or the trustee or the manager of the unit trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

General risks in relation to Structured Products

You may lose all your investment in the Structured Products

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest rate, foreign exchange, time value, market and/or political risks. Structured Products may expire worthless.

Generally speaking, options, warrants and equity linked instruments are priced primarily on the basis of the price or level of the Underlying Asset, the volatility of the Underlying Asset's price or level and the time remaining to expiry of the Structured Product.

The price of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you, the greater the risk that you will lose all or a significant part of your investment.

"European Style" Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on your investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price or level of the Underlying Asset as may be specified in the relevant launch announcement and supplemental listing document. Changes in the price or level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price or level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price or level of the relevant Underlying Asset does not move in your anticipated direction.

The value of the Structured Products may be disproportionate with or opposite to movement in the price or level of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Assets. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the price or level of the Underlying Assets is moving up, the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in an Underlying Asset specified in the relevant launch announcement and supplemental listing document, you should recognise the complexities of utilising Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price or level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price or level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions.

Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is closed out, the number of Structured Products outstanding in that series will decrease, which may result in a lessening of the liquidity of Structured Products.

A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have appointed, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted and/or, without limitation, frustrated. The more limited the secondary market, the more difficult it may be for you to realise the value of the Structured Products prior to expiry.

Interest rates

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro-economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time decay

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend partly upon the length of the period remaining to expiration and expectations concerning the price or level of the Underlying Assets. The value of a Structured Product will decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

Exchange rate risk

There may be an exchange rate risk in the case of cash settled Structured Products where the Cash Settlement Amount will be converted from a foreign currency into the Settlement Currency. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.

Possible early termination for illegality or impracticability

If the Conditions provide for termination due to illegality and we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, the performance of (i) our obligations under the relevant Structured Products or (ii) our Guarantor's obligations under the Guarantee has become illegal or impracticable, we may terminate early the relevant Structured Products. If we terminate early the relevant Structured Products, we will, if and to the extent permitted by applicable law, pay an amount determined by us in good faith and in a commercially reasonable manner to be the fair market value of the relevant Structured Products notwithstanding the illegality or impracticability less our cost of unwinding the underlying hedging arrangements. Such amount may be substantially less than your initial investment and may be zero.

Modification to the Conditions

Under the Conditions, we may, without your consent, effect any modification of the terms and conditions applicable to the Structured Products which, in our opinion, is:

(a) not materially prejudicial to the interest of the holders of the Structured Products generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Risks in relation to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to:

(a) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the underlying shares or units in the underlying trust would normally be entitled to; or

(b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in Structured Products may involve valuation risks in relation to the Underlying Asset to which the particular series of Structured Products relate. The price or level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro-economic factors, market trends, speculation and/or (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

Where the Structured Products are linked to certain Underlying Asset in a developing financial market, you should note a developing financial market differs from most developed markets in various aspects, including the growth rate, government involvement and control, level of development and foreign exchange control. Any rapid or significant changes in the economic, political or social condition and the government policies of the developing financial market may result in large fluctuations in the value or level of the Underlying Asset. Such fluctuations may affect the market value of the Structured Products and hence your investment return.

You must be experienced in dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

Certain events relating to the Underlying Asset require or, as the case may be, permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions. We may, in our sole discretion:

(a) in respect of Structured Products relating to single equities or unit trust, adjust, among other things, the Entitlement, the Exercise Price/ Strike Price and the Call Price (if applicable) upon exercise or any other terms (including without limitation the closing price of the Underlying Asset) of any series of Structured Products for events such as rights issue, bonus issue, subdivision, consolidation, restructuring event or certain cash distribution; and

(b) in respect of Structured Products relating to an index, determine the Closing Level.

However, we are not obliged to make an adjustment for every event that may affect an Underlying Asset, in which case the market price of the Structured Products and the return upon the expiry of the Structured Products may be affected.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more components comprising the index are not trading. If this occurs on the Valuation Date which does not constitute a Market Disruption Event under the Conditions, then the Closing Level of the index is calculated by reference to the remaining components in the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

Suspension of trading

If an Underlying Asset is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products may be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

Delay in settlement

Unless otherwise specified in the relevant Conditions, in the case of any termination or expiry, as the case may be, of Structured Products, there may be a time lag between the date on which the Structured Products are terminated or expired, and the time the applicable settlement amount is paid to you. Any such delay between the time of termination or expiry and the payment of the settlement amount will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the termination or expiry of such Structured Products arising from a determination by us that a Market Disruption Event, Settlement Disruption Event or delisting of the underlying shares or units in the underlying trust has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount or entitlement value (as the case may be) of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the Conditions.

Risks relating to Structured Products over trusts

In the case of Structured Products which relate to the units of a trust:

(a) the Vontobel Group is not able to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The trustee or manager of the relevant trust is responsible for making investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

In the case of Structured Products linked to units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Synthetic exchange traded funds

Additionally, where the Underlying Asset comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF.

Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

Risks specific to ETF investing through RQFII and China Connect

Where the Underlying Asset comprises the units of an ETF issued and traded outside Mainland China with direct investment in the Mainland China's securities markets through the RMB Qualified Foreign Institutional Investor ("**RQFII**") regime and the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, "**China Connect**"), you should note that, amongst others:

(a) the novelty and untested nature of such ETF make the Trust riskier than traditional ETFs investing directly in more developed markets. The policy and rules for RQFII and China Connect prescribed by the Mainland China government are new and subject to change, and there may be uncertainty to their implementation. The uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of the Trust and the trading price of the Units;

(b) such ETF primarily invests in securities traded in the Mainland China's securities markets and is subject to concentration risk. Investment in the Mainland China's securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of such ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets; and

(c) investment by such ETF in the mainland Chinese securities market under the RQFII regime will be subject to its manager's RQFII quota allocated to such ETF. In addition, trading of securities invested by the ETF under the China Connect will be subject to a daily quota which does not belong to such ETF and is utilised on a first-come-first-serve basis. In the event that the RQFII quota allocated to such ETF and/ or the daily quota under China Connect are reached, the manager may need to suspend creation of further units of such ETF, and therefore may affect the liquidity in unit trading of such ETF. In such event, the trading price of a unit of such ETF is likely to be at a significant premium to its net asset value, and may be highly volatile.

The above risks may have a significant impact on the performance of the units and the price of the Structured Products.

Please read the offering documents of the ETF to understand its key features and risks.

ETF traded through dual counters model

Where the Underlying Asset comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi ("**RMB**") and Hong Kong dollars ("**HKD**") separately, the novelty and relatively untested nature of the Stock Exchange's dual counters model may bring the following additional risks:

(a) the Structured Products may be linked to the HKD-traded units or the RMB-traded units. If the Underlying Asset is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the Structured Products. Similarly, if the Underlying Asset is the RMB-traded units, movements in the trading prices of the HKD-traded units should not directly affect the price of the Structured Products;

(b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the Structured Products; and

(c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of the Underlying Asset in HKD or RMB (as the case may be) may adversely affect the price of the Structured Products.

*Real estate investment trust ("**REIT**")*

Where the Underlying Asset comprises the units of a REIT, you should note that the investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates;

(e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

Risk Relating to CBBCs

Correlation between the price of a CBBC and the price or level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price or level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate with the change in the price or level of the Underlying Asset.

Payout under CBBCs

It is expected that the value of each entitlement of CBBCs tends to mirror the value of the Underlying Asset. However, you are warned that the price of CBBCs will be determined not only by the trading value of the Underlying Asset but also by the impact of financing costs and/or dividends during the period in which the CBBCs are held by you. In particular, when the value of the Underlying Asset is close to the Call Price/Call Level, the price of the CBBCs will be more volatile.

You may lose your entire investment when a Mandatory Call Event occurs

CBBCs has a mandatory call feature and trading in the CBBCs will be suspended when the Spot Price/Spot Level of the Underlying Asset reaches the Call Price/Call Level (subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed). No investors can sell the CBBCs after the occurrence of a Mandatory Call Event. Even if the price/level of the Underlying Asset bounces back in the right direction, the CBBCs which have been terminated as a result of the Mandatory Call Event will not be revived and investors will not be able to profit from the bounce-back.

Upon the occurrence of a Mandatory Call Event, a Category N CBBC will become worthless while a Catagory R CBBC will be settled by the payment of a Residual Value (if any) by us but such amout may be zero.

Mandatory Call Event is irrevocable

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Price/Call Level and other parameters); or

(b) manifest errors caused by the relevant third party price source (such as miscalculation of the index level by the relevant index compiler),

and in each case, we agree with the Stock Exchange that such Mandatory Call Event is to be revoked within such time as specified in the relevant launch announcement and supplemental listing document following the trading day on which the Mandatory Call Event is triggered. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Non-recognition of Post MCE Trades

The Stock Exchange and its recognised exchange controller, HKEX, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence)), or any other legal or equitable grounds and, without regard to the circumstances giving rise to any purported claim (except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition of Post MCE Trades**"), including, without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

The Vontobel Group shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades, in connection with the occurrence of a Mandatory Call Event, the resumption of trading of the CBBCs or reinstatement of any Post MCE Trades cancelled as a result of the reversal of any Mandatory Call Event, notwithstanding that such Trading Suspension and/or Non-Recognition of Post MCE Trades occur as a result of an error in the observation of the event.

Residual Value may not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event may or may not include the residual funding cost for the CBBCs. You may not receive any residual funding cost back from us upon early termination of a Category R CBBC upon a Mandatory Call Event.

Delay in announcements of a Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called upon the occurrence of a Mandatory Call Event. You must however be aware that there may be delay in the announcement of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Our hedging activities may adversely affect the price or level of the Underlying Asset

Any member of the Vontobel Group may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset (whether for risk reduction purposes or otherwise). In addition, in connection with the offering of any CBBCs, we and/or any member of the Vontobel Group may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any member of the Vontobel Group may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price or level of the Underlying Asset and/or the value of CBBCs and which could be deemed to be adverse to your interests. The Vontobel Group is likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which the Vontobel Group provides in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Unwinding of hedging arrangements

The trading and/or hedging activities of the Vontobel Group related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price or level of the Underlying Asset and may trigger a Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, our unwinding activities may cause a fall or rise (as the case may be) in the trading price or level of the Underlying Asset, leading to a Mandatory Call Event.

In respect of a Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCS at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of a Category R CBBCs, before the occurrence of a Mandatory Call Event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value of the CBBCs.

Risk relating to the legal form of the Structured Products

Each Structured Product will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of Central Clearing and Settlement System ("**CCASS**")). A risk of investing in a security that is issued in global registered form and held on your behalf within a clearing system effectively means that evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the General Rules of CCASS and CCASS Operational Procedures ("**CCASS Rules**"). You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, whilst available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your brokers/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEX's website and/or released by HKSCC to its participants via CCASS in accordance with the CCASS Rules. You will need to check the HKEX's website regularly and/or rely on your brokers/custodians to obtain such notices/ announcements; and

(e) following the Expiry Date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount (net of any Exercise Expenses) to HKSCC Nominees Limited as the "holder" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount (net of any Exercise Expenses) to the respective CCASS participants in accordance with the CCASS Rules.

Potential fee arrangements with brokers and potential conflicts of interest of brokers

To the extent permissible by the applicable laws, regulations, codes and guidelines and/or recommendations (whether imposed by applicable law or by competent regulatory authorities) in effect from time to time, we may or may not enter into fee arrangements with brokers with respect to the Structured Products or dealings in, or related to, the relevant Underlying Asset. You should note that brokers with whom we have a fee arrangement (if any) do not, and cannot be expected to, deal exclusively in, or related to, the Structured Products or any relevant Underlying Asset and may from time to time engage in other dealings for their own accounts and/or for the accounts of their clients. Potential conflicts of interests may arise from the different roles played by such brokers in connection with their dealings in, or related to, the Structured Products, the relevant Underlying Asset and/or other financial products (including those issued by other institutions over the same relevant Underlying Asset). A broker's interests (economic or otherwise) in each role may potentially affect the Structured Products and/or the relevant Underlying Asset in a manner that may cause adverse consequences to you if you invest in the Structured Products.

Effect of the combination of risk factors unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

TAXATION

The following section is of a general nature and is not intended to provide guidance to you. This section relates to you if you are the absolute beneficial owner of the Structured Products and may not apply equally to you. If you are in any doubt as to your tax position on purchase, ownership, transfer, holding or exercise of any Structured Product, you are strongly advised to consult your own tax advisers.

General

You may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price of each Structured Product.

Taxation in Hong Kong

The following paragraph, which is intended as a general guide only, is based on current law and practice in Hong Kong. It summarises certain aspects of taxation in Hong Kong which may be applicable to the Structured Products but is not purported to be a comprehensive description of all tax considerations which may be of relevance.

Profits Tax

No tax is payable in Hong Kong by withholding or otherwise in respect of:

(a) dividends of any company;

(b) distributions of any trust authorised as a collective investment scheme by the SFC under section 104 of the Securities and Futures Ordinance (Cap 571, The Laws of Hong Kong) or otherwise approved by the SFC; or

(c) any capital gains,

arising on the sale of the underlying shares or Structured Products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

Stamp Duty

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

Taxation in Switzerland

Under present Swiss law, if you are a non-resident of Switzerland and have not engaged in trade or business through a permanent establishment within Switzerland during the taxable year, you will not be subject to any Swiss Federal, Cantonal or Municipal income or other tax on gains realised during the year on the sale or redemption of the Structured Products.

There is no tax liability in Switzerland in connection with the issue of the Structured Products. However, Structured Products subscribed, transferred or redeemed through a bank or other dealer resident in Switzerland or Liechtenstein may be subject to Swiss securities transfer tax.

Taxation in United States of America

U.S. Foreign Account Tax Compliance Act

We and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after the later of 31 December 2018 or the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are filed with the U.S. Federal Register in respect of (i) any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are filed with the U.S. Federal Register and (ii) any structured products not characterised as obligations for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**") or similar law implementing an intergovernmental approach to FATCA.

In addition, we and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax pursuant to FATCA at a rate of 30 per cent. on payments made in respect of any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which such products are treated as giving rise to "dividend equivalent" payments as described below under "Legislation Affecting Dividend Equivalent Payments."

FATCA withholding tax may apply to an investor or to any non-U.S. financial institution through which payment on the structured products is made if the Investor or non-US financial institution does not fulfill its obligations under FATCA, including if (i) that investor (unless otherwise exempt from FATCA) does not provide information or consent to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer or (ii) that non-US financial institution does not become a Participating Foreign Financial Institution (as defined by FATCA) by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise deemed FATCA compliant or exempt from FATCA withholding tax. Structured product holders therefore may receive less settlement amount than expected. We are not required to pay any additional amounts with respect to amounts so withheld. FATCA is particularly complex and its application is uncertain at this time. Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

Further information on FATCA may be found at www.irs.gov/Businesses/Corporations/ under the section headed "Foreign Account Tax Compliance Act". Any information appearing on such website does not form part of this base listing document.

PLACING AND SALE

General

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to the Structured Products in any jurisdiction (other than in Hong Kong) where action for that purpose is required.

No offers, sales or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on us or the Guarantor. In the event that we contemplate a placing, placing fees may be payable in connection with any issue and we may, at our discretion, allow discounts to placees.

United States of America

The Structured Products have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States. The Structured Products may not be offered or sold or otherwise transferred, nor may transactions in such Structured Products be executed, at any time, within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")), except in compliance with Regulation S. In purchasing the Structured Products you hereby warrant that you are not a U.S. person as defined in Regulation S and that you are not purchasing for, or for the account or benefit of, any such person. You further agree to resell such Structured Products only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or another available exemption therefrom and agree not to engage in hedging transactions with respect to the Structured Products unless in compliance with the Securities Act. You acknowledge that any transfer of the structured products by you other than in compliance with the preceding sentence is prohibited and will not be effected to the fullest extent permitted by law.

European Economic Area

Each dealer represents and agrees, and each further dealer appointed in respect of the Structured Products will be required to represent and agree, it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any Structured Products which are the subject of the offering as contemplated by this Base Listing Document to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the Insurance Mediation Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable an investor to decide to purchase or subscribe the Structured Products.

United Kingdom

Each dealer has represented and agreed that:

(a) in respect to Structured Products having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Structured Products other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Structured Products would otherwise constitute a contravention of Section 19 of Financial Services and Markets Act, as amended (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Structured Products in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

TEXT OF THE GUARANTEE

Our obligations under the Structured Products are guaranteed by the Guarantor under the Guarantee executed by the Guarantor by way of deed poll and dated as of 6 March 2018. The text of the Guarantee is set out below.

"THIS GUARANTEE is made by way of deed poll by Vontobel Holding AG (the "**Guarantor**") in favour of the holders for the time being of the Structured Products (as defined below) (each a "**Holder**") and dated as of 6 March 2018. WHEREAS:—

(A) The Guarantor has agreed to guarantee all obligations of Bank Vontobel AG (the "**Issuer**") under any structured products (including, without limitation, Warrants, callable bull/bear contracts ("**CBBC**") or other types of structured products (together, the "**Structured Products**")) issued from time to time by the Issuer pursuant to a base listing document to be dated on or about 6 March 2018 ("**Base Listing Document**", which expression shall include any amendment and/or supplement thereto and any replacement or further issue of any base listing document issued by the Issuer from time to time in respect of Structured Products (and whether or not issued pursuant to any condition imposed by the Securities and Futures Commission pursuant to the Securities and Futures Ordinance or by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Rules Governing the Listing of Securities on the Stock Exchange)) and listed on the Stock Exchange.

(B) Terms defined in the Conditions of the Structured Products shall have the same meanings in this Deed of Guarantee except where the context requires otherwise. References to "**Conditions**" are to the terms and conditions set out in the Base Listing Document.

NOW THIS DEED WITNESSES as follows:

1 **Guarantee**: The Guarantor unconditionally and irrevocably guarantees by way of deed poll to each Holder that, if for any reason the Issuer does not pay any sum payable by it or perform any other obligation in respect of any Structured Product on the date specified for such payment or performance the Guarantor will, in accordance with the Conditions pay that sum in the currency in which such payment is due in immediately available funds or, as the case may be, perform or procure the performance of the relevant obligation on the due date for such performance. In case of the failure of the Issuer to satisfy such obligations as and when the same become due, the Guarantor hereby undertakes to make or cause to be made such payment or satisfy or cause to be satisfied such obligations as though the Guarantor were the principal obligor in respect of such obligation.

2 **Guarantor as Principal Obligor**: As between the Guarantor and the holder of each Structured Product but without affecting the Issuer's obligations, the Guarantor will be liable under this Guarantee as if it were the sole principal obligor and not merely a surety. Accordingly, it will not be discharged, nor will its liability be affected, by anything which would not discharge it or affect its liability if it were the sole principal obligor (including (1) any time, indulgence, waiver or consent at any time given to the Issuer or any other person, (2) any amendment to any of the Conditions or to any security or other guarantee or indemnity, (3) the making or absence of any demand on the Issuer or any other person for payment or performance of any other obligation in respect of any Structured Product, (4) the enforcement or absence of enforcement of any Structured Product or of any security or other guarantee or indemnity, (5) the release of any such security, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction or reorganisation of the Issuer or any other person, or (7) the illegality, invalidity or unenforceability of or any defect in any provision of the Conditions or any of the Issuer's obligations under any of them). Any other suretyship defenses are hereby waived by the Guarantor.

3 **Guarantor's Obligations Continuing**: The Guarantor's obligations under this Guarantee are and will remain in full force and effect by way of continuing security until no sum remains payable and no other obligation remains to be performed under any Structured Product (in each case subject to its exercise). Furthermore, those obligations of the Guarantor are additional to, and not instead of, any security or other guarantee or indemnity at any time existing in favour of any person, whether from the Guarantor or otherwise. The Guarantor irrevocably waives all notices and demands of any kind.

4 **Discharge by the Issuer**: If any payment received by, or other obligation discharged to or to the order of, the holder of any Structured Product is, on the subsequent bankruptcy or insolvency of the Issuer, avoided under any laws relating to bankruptcy or insolvency, such payment or obligation will not be considered as having discharged or diminished the liability of the Guarantor and this Guarantee will continue to apply as if such payment or obligation had at all times remained owing due by the Issuer.

5 **Indemnity**: As a separate and alternative stipulation, the Guarantor unconditionally and irrevocably agrees (1) that any sum or obligation which, although expressed to be payable under the Structured Products, is for any reason (whether or not now existing and whether or not now known or becoming known to the Issuer, the Guarantor or the holder of any Structured Product) not recoverable from the Guarantor on the basis of a guarantee will nevertheless be recoverable from it as if it were the sole principal obligor and will be paid or performed by it in favour of the holder of any Structured Product and (2) as a primary obligation to indemnify each Holder against any loss suffered by it as a result of any sum or obligation expressed to be payable under the Structured Products not being paid or performed by the time, on the date and otherwise in the manner specified in the Structured Products or any obligation of the Issuer under the Structured Products being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not known or becoming known to the Issuer, the Guarantor or any Holder), in the case of a payment obligation the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

6 **Incorporation of Terms**: The Guarantor agrees that it shall comply with and be bound by those provisions contained in the Conditions which relate to it.

7 **Representations:** The Guarantor represents and warrants to each Holder that it has the full power and authority, and has taken all necessary steps, to execute and deliver this Guarantee and to perform its obligations hereunder and this Guarantee constitutes the valid and binding obligations of the Guarantor and is enforceable in accordance with its terms.

8 **Governing law**: This Guarantee shall be governed by and construed in accordance with the laws of Hong Kong.

9 **Jurisdiction**: The courts of Hong Kong are to have jurisdiction to settle any disputes which may arise out of or in connection with this Guarantee and accordingly any legal action or proceedings arising out of or in connection with this Guarantee ("**Proceedings**") may be brought in such courts. The Guarantor irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

10 **Service of Process**: The Guarantor agrees that service of process in Hong Kong may be made on it at Vontobel Limited, 1901 Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Nothing in this Guarantee shall affect the right to serve process in any other manner permitted by law.

11 **Contracts (Rights of Third Parties) Ordinance**: A person who is not a Holder has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Guarantee.

IN WITNESS whereof this Guarantee has been executed by the Guarantor as a deed poll and delivered on the date specified below.

Dated as of 6 March 2018"

APPENDIX 1 — GENERAL CONDITIONS OF STRUCTURED PRODUCTS

These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the applicable Product Conditions and the Launch Announcement and Supplemental Listing Document in relation to the particular series of Structured Products. These General Conditions and the applicable Product Conditions (as supplemented, amended, modified and/or replaced by the relevant Launch Announcement and Supplemental Listing Document) together constitute the Conditions of the relevant Structured Products, and will be endorsed on the Global Certificate representing the relevant Structured Products. The Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Structured Products may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these General Conditions and the applicable Product Conditions, replace or modify the General Conditions and/or the applicable Product Conditions for the purpose of such series of Structured Products.

1. Definitions

"**Base Listing Document**" means the base listing document relating to Structured Products dated 6 March 2018 and issued by the Issuer, including any addenda to such base listing document issued from time to time;

"**Board Lot**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**CCASS**" means the Central Clearing and Settlement System established and operated by HKSCC;

"**CCASS Rules**" means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

"**Conditions**" means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions;

"**Expiry Date**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**General Conditions**" means these general terms and conditions;

"**Global Certificate**" means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

"**Guarantee**" means a deed poll guarantee dated as of 6 March 2018 made by the Guarantor;

"**Guarantor**" means Vontobel Holding AG;

"**HKSCC**" means Hong Kong Securities and Clearing Company Limited;

"**Holder**" means, in respect of each series of Structured Products, each person who is for the time being shown in the Register as the holder of the Structured Products, and who shall be treated by the Issuer, the Guarantor and the Sponsor as the absolute owner and holder of the relevant Structured Products. The expression "**Holders**" shall be construed accordingly;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Instrument**" means an instrument by way of deed poll dated 18 August 2017 executed by the Issuer which constitutes the Structured Products;

"**Issuer**" means Bank Vontobel AG;

"**Launch Announcement and Supplemental Listing Document**" means the launch announcement and supplemental listing document relating to a particular series of Structured Products;

"**Nominee**" means HKSCC Nominees Limited (or such other nominee company as may be used by the HKSCC from time to time) in relation to the provision of nominee services to persons admitted for the time being by the HKSCC as a participant of CCASS;

"**Product Conditions**" means the product conditions relating to a particular series of Structured Products;

"**Register**" means, in respect of each series of Structured Products, the register of holders of such series of Structured Products kept by the Issuer pursuant to General Condition 3.3;

"**Sponsor**" means Vontobel Limited;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Structured Products**" means derivative warrants ("**Warrants**"), callable bull/bear contracts ("**CBBCs**") or such other structured products to be issued by the Issuer from time to time. References to "**Structured Product**" are to be construed as references to a particular series of Structured Products.

Other capitalised terms will, unless otherwise defined, have the meanings given to them in the Base Listing Document, the applicable Product Conditions, the relevant Launch Announcement and Supplemental Listing Document and/or the Global Certificate.

2. Form, Status, Transfer and Trading

2.1 *Form*

The Structured Products (which expression shall, unless the context otherwise requires, include any further structured products issued pursuant to General Condition 9) are issued in registered form subject to and with the benefit of the Instrument and the Guarantee. Copies of the Instrument and the Guarantee are available for inspection at the specified offices of the Sponsor. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument.

2.2 *Status of the Issuer's obligations*

The settlement obligations of the Issuer in respect of the Structured Products represent general unsecured contractual obligations of the Issuer and of no other person and rank, and will rank, pari passu among themselves and with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law. The obligations of the Guarantor under the Guarantee represent general unsecured contractual obligations of the Guarantor and of no other person and rank, and will rank, pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Guarantor, except for obligations accorded preference by mandatory provisions of applicable law.

2.3 *Transfer and Trading of Structured Products*

Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

Trading in Structured Products on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

3. Sponsor and Register

3.1 The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holder.

3.2 The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Structured Products are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with General Condition 7.

3.3 The Register will be maintained in Hong Kong by the Issuer and the Issuer will enter or cause to be entered the name, address and banking details of the Holders, the details of the Structured Products held by each Holder, including the number of Structured Products of each series held and any other particulars which it thinks proper.

4. Purchases

The Issuer, the Guarantor and/or any of their respective affiliates may at any time purchase Structured Products at any price in the open market or by tender or by private treaty. Any Structured Products so purchased may be held, resold or surrendered for cancellation.

5. Global Certificate

The Structured Products will be represented by a Global Certificate. No definitive certificate will be issued. The Structured Products can only be exercised by the Nominee. The Global Certificate representing the relevant Structured Products will be deposited with CCASS in the name of the Nominee. The Global Certificate must be executed manually on behalf of the Issuer by its authorised person(s) or attorney(s).

6. Meetings of Holders and Modification

6.1 ***Meetings of Holders***

The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

6.2 ***Modification***

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the Structured Products or the Instrument which, in the opinion of the Issuer, is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with General Condition 7.

7. Notices

All notices to the Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If such publication is not practicable, notice will be given in such other manner as the Issuer may determine appropriate.

8. Adjustment to the Conditions

8.1 ***Other Adjustments***

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Structured Products as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

8.2 ***Notice of Adjustments***

All determinations made by the Issuer in respect of any adjustment to the Conditions will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 7.

9. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further structured products so as to form a single series with the Structured Products.

10. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Structured Products.

11. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under the Conditions will be made in good faith and in a commercially reasonable manner.

12. Governing Law

The Structured Products, the Global Certificate, the Guarantee and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer, the Guarantor and each Holder (by its purchase of the Structured Products) shall be deemed to have submitted for all purposes in connection with the Structured Products, the Global Certificates, the Guarantee and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

13. Language

In the event of any inconsistency between (a) the Chinese translation of these General Conditions and/or the applicable Product Conditions and (b) the English version of these General Conditions and/or the applicable Product Conditions, the English version of these General Conditions and/or the applicable Product Conditions shall prevail.

14. Prescription

Claims against the Issuer for payment of any amount in respect of a series of Structured Product will become void unless made within ten years of the MCE Valuation Date or the Expiry Date (as the case may be) applicable to that series and thereafter, any sums payable in respect of such Structured Product shall be forfeited and shall revert to the Issuer.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Structured Products.

APPENDIX 2 — PRODUCT CONDITIONS OF WARRANTS

The following pages set out the Product Conditions in respect of different types of Warrants.

PART A — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing price of one Share, as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as follows:

(a) in the case of a series of call Warrants:

$$\frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Company**" means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**Exercise Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Number of Warrant(s) per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions;

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Share**" means the share of the Company specified as such in the relevant Launch Announcement and Supplemental Listing Document and "**Shares**" shall be construed accordingly; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Warrant Rights and Exercise Expenses

2.1 ***Warrant Rights***

Every Board Lot gives each Holder, upon due exercise and compliance with Product Condition 3, the right to receive payment of the Cash Settlement Amount, if any.

2.2 ***Exercise Expenses***

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses in accordance with Product Condition 3.

3. Exercise of Warrants

(a) Exercise of Warrants in Board Lots

Warrants may only be exercised in Board Lots or integral multiples thereof.

(b) Automatic Exercise

The Warrants are exercisable only on the Expiry Date. Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (net of any Exercise Expenses) (if any) in accordance with Product Condition 3(d).

Any Warrant which has not been automatically exercised in accordance with this Product Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

(c) Cancellation

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

(i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or

(ii) have expired worthless,

and thereby cancel the relevant Warrants.

(d) *Cash Settlement*

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses). If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If, as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

4. Adjustments

4.1 ***Rights Issues***

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day ("**Rights Issue Adjustment Date**") on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 ***Bonus Issues***

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day ("**Bonus Issue Adjustment Date**") on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

4.3 ***Share Splits or Consolidations***

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

4.4 ***Merger or Consolidation***

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 4.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

4.5 ***Cash Distribution***

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

5. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

6. Delisting

6.1 *Adjustments following delisting*

If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange*

Without prejudice to the generality of Product Condition 6.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

7. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

PART B — PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUST

The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Average Price**" means the arithmetic mean of the closing price of one Unit, as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like in respect of each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as follows:

(a) in the case of a series of call Warrants:

$$\frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**Exercise Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Number of Warrant(s) per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions;

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of (i) the Expiry Date and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Trust**" means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document and "**Units**" shall be construed accordingly; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Warrant Rights and Exercise Expenses

2.1 ***Warrant Rights***

Every Board Lot gives each Holder, upon due exercise and compliance with Product Condition 3, the right to receive payment of the Cash Settlement Amount, if any.

2.2 ***Exercise Expenses***

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses in accordance with Product Condition 3.

3. Exercise of Warrants

(a) Exercise of Warrants in Board Lots

Warrants may only be exercised in Board Lots or integral multiples thereof.

(b) Automatic Exercise

The Warrants are exercisable only on the Expiry Date. Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (net of any Exercise Expenses) (if any) in accordance with Product Condition 3(d).

Any Warrant which has not been automatically exercised in accordance with this Product Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

(c) Cancellation

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

(i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or

(ii) have expired worthless,

and thereby cancel the relevant Warrants.

(d) Cash Settlement

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses). If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If, as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

4. Adjustments

4.1 *Rights Issues*

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day ("**Rights Issue Adjustment Date**") on which trading in the Units becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any distribution or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 ***Bonus Issues***

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day ("**Bonus Issue Adjustment Date**") on which trading in the Units becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$\text{Adjustment Factor} = 1 + N$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

4.3 ***Subdivisions or Consolidations***

If and whenever the Trust shall subdivide its Units or any class of its outstanding Unit into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding unit capital comprised of the Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

4.4 ***Merger or Consolidation***

If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 4.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

4.5 ***Cash Distribution***

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the date on which the Units are traded on an ex-Ordinary Distribution basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

5. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Product Condition 5, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

6. Delisting

6.1 *Adjustments following delisting*

If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange*

Without prejudice to the generality of Product Condition 6.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

7. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

PART C — PRODUCT CONDITIONS OF CASH SETTLED INDEX WARRANTS

The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer as follows (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) in the case of a series of call Warrants:

$$\frac{\text{(Closing Level – Strike Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of put Warrants:

$$\frac{\text{(Strike Level – Closing Level) x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Divisor**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

"**First Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Currency Amount**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" means the Stock Exchange or any other exchange as specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Listing Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Market Disruption Event**" means:

(a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Product Conditions**" means these product terms and conditions;

"**Second Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the Designated Bank Account;

"**Strike Level**" means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

"**Valuation Date**" means the date specified in the Launch Announcement and Supplemental Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Warrant Rights and Exercise Expenses

2.1 *Warrant Rights*

Every Board Lot gives each Holder, upon due exercise and compliance with Product Condition 3, the right to receive payment of the Cash Settlement Amount, if any.

2.2 *Exercise Expenses*

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses in accordance with Product Condition 3.

3. Exercise of Warrants

(a) Exercise of Warrants in Board Lots

Warrants may only be exercised in Board Lots or integral multiples thereof.

(b) Automatic Exercise

The Warrants are exercisable only on the Expiry Date. Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (net of any Exercise Expenses) (if any) in accordance with Product Condition 3(d).

Any Warrant which has not been automatically exercised in accordance with this Product Condition 3(b) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

(c) Cancellation

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

(i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or

(ii) have expired worthless,

and thereby cancel the relevant Warrants.

(d) Cash Settlement

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount (net of any Exercise Expenses). If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

4. Adjustments to the Index

4.1 ***Successor Index Compiler Calculates and Reports Index***

If the Index is:

(a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or

(b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

4.2 ***Modification and Cessation of Calculation of Index***

If:

(a) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or

(b) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the relevant exchange).

5. Illegality and Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

APPENDIX 3 — PRODUCT CONDITIONS OF CBBCS

The following pages set out the Product Conditions in respect of different types of CBBCs.

PART A — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Cash Settlement Amount**" means:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) In the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) In the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Share, as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like on the Valuation Date;

"**Company**" means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Day of Notification"** means the Trading Day immediately following the day on which a Mandatory Call Event occurs;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early expiration of CBBCs upon the occurrence of a Mandatory Call Event or exercise of CBBCs upon expiry;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Price of the Shares on any Trading Day during the Observation Period is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**MCE Valuation Date**" means the last Trading Day during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Number of CBBC(s) per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Commencement Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading on the Stock Exchange on the Last Trading Day. For the avoidance of doubt, the Observation Period shall not be extended notwithstanding the Valuation Date shall not fall on the Last Trading Day;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means:

(a) In the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) In the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount (if any) electronically through CCASS to the Designated Bank Account;

"**Share**" means the share of the Company specified as such in the relevant Launch Announcement and Supplemental Listing Document and "**Shares**" shall be construed accordingly;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price of the Shares having regard to the then prevailing market conditions, the last reported trading price of the Shares on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

  (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

  (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

  (each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

3. Exercise of CBBCs

3.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

3.2 *Automatic Exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

3.3 *Mandatory Call Event*

(a) Subject to Product Condition 3.3(b), following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the CBBCs (the "**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R CBBCs, the Issuer will give a notice of the valuation of the Residual Value (the "**Announcement on Valuation of Residual Value**") to the Holders before the end of the trading session immediately after the MCE Valuation Period in accordance with General Condition 7.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited; or

(ii) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (i) above, such event is reported by the Stock Exchange to the Issuer, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, and

(B) in the case of an error by the relevant price source prescribed in paragraph (ii) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Day of Notification or such other time frame as prescribed by the Stock Exchange from time to time, in which case, (A) the Mandatory Call Event so triggered will be reversed; and (B) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

3.4 ***Entitlement***

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

3.5 ***Cancellation***

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

3.6 ***Exercise Expenses***

(a) Any Exercise Expenses which were not determined by the Issuer:

(i) during the MCE Valuation Period following the Mandatory Call Event; or

(ii) otherwise, on the Expiry Date (as the case may be), and were not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 3.7, shall be notified to the Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the Holder to the Issuer immediately upon demand.

(b) Holders shall note that they shall be responsible for additional costs and expenses in connection with any early expiration or exercise of the CBBCs including the Exercise Expenses which amount shall, to the extent necessary, be payable to the Issuer and collected from the Holders.

3.7 ***Cash Settlement***

Upon early expiration of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount (net of any Exercise Expenses) (if any) to the relevant Holder. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) (if any) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

3.8 ***Responsibility of Issuer, Guarantor and Sponsor***

None of the Issuer, the Guarantor, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Product Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

3.9 ***Liability of Issuer, Guarantor and Sponsor***

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer, the Guarantor nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer, the Guarantor, nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

3.10 ***Trading***

Subject to Product Condition 3.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

4. Adjustments

4.1 ***Rights Issues***

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day ("**Rights Issue Adjustment Date**") on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis

R: Subscription price per Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 ***Bonus Issues***

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day ("**Bonus Issue Adjustment Date**") on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

4.3 ***Share Splits or Consolidations***

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

4.4 ***Merger or Consolidation***

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 4.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

4.5 ***Cash Distribution***

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

5. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

6. Delisting

6.1 *Adjustments following delisting*

If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 *Listing on another exchange*

Without prejudice to the generality of Product Condition 6.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

PART B — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUST

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Cash Settlement Amount**" means:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) In the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Unit, as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like on the Valuation Date;

"**Day of Notification"** means the Trading Day immediately following the day on which a Mandatory Call Event occurs;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Entitlement**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early expiration of CBBCs upon the occurrence of a Mandatory Call Event or exercise of CBBCs upon expiry;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Price of the Units on any Trading Day during the Observation Period is:

(a) in the case of a series of bull CBBCs, at or below the Call Price; or

(b) in the case of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for the opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**MCE Valuation Date**" means the last Trading Day during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed.

In that case:

(a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Product Condition 4 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

"**Number of CBBC(s) per Entitlement**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Commencement Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading on the Stock Exchange on the Last Trading Day. For the avoidance of doubt, the Observation Period shall not be extended notwithstanding the Valuation Date shall not fall on the Last Trading Day;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means:

(a) In the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) In the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount (if any) electronically through CCASS to the Designated Bank Account;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Strike Price**" means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trust**" means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document and "**Units**" shall be construed accordingly; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price of the Units having regard to the then prevailing market conditions, the last reported trading price of the Units on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

3. Exercise of CBBCs

3.1 *Exercise of CBBCs in Board Lots*

CBBCs may only be exercised in Board Lots or integral multiples thereof.

3.2 *Automatic Exercise*

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

3.3 *Mandatory Call Event*

(a) Subject to Product Condition 3.3(b), following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the CBBCs (the "**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R CBBCs, the Issuer will give a notice of the valuation of the Residual Value (the "**Announcement on Valuation of Residual Value**") to the Holders before the end of the trading session immediately after the MCE Valuation Period in accordance with General Condition 7.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited; or

(ii) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (i) above, such event is reported by the Stock Exchange to the Issuer, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, and

(B) in the case of an error by the relevant price source prescribed in paragraph (ii) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Day of Notification or such other time frame as prescribed by the Stock Exchange from time to time, in which case, (A) the Mandatory Call Event so triggered will be reversed; and (B) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

3.4 ***Entitlement***

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

3.5 ***Cancellation***

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

3.6 ***Exercise Expenses***

(a) Any Exercise Expenses which were not determined by the Issuer:

(i) during the MCE Valuation Period following the Mandatory Call Event; or

(ii) otherwise, on the Expiry Date (as the case may be), and were not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 3.7, shall be notified to the Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the Holder to the Issuer immediately upon demand.

(b) Holders shall note that they shall be responsible for additional costs and expenses in connection with any early expiration or exercise of the CBBCs including the Exercise Expenses which amount shall, to the extent necessary, be payable to the Issuer and collected from the Holders.

3.7 ***Cash Settlement***

Upon early expiration of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount (net of any Exercise Expenses) (if any) to the relevant Holder. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) (if any) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

3.8 ***Responsibility of Issuer, Guarantor and Sponsor***

None of the Issuer, the Guarantor, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Product Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Units.

3.9 ***Liability of Issuer, Guarantor and Sponsor***

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer, the Guarantor nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer, the Guarantor nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

3.10 ***Trading***

Subject to Product Condition 3.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

4. Adjustments

4.1 ***Rights Issues***

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day ("**Rights Issue Adjustment Date**") on which trading in the Units becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis

R: Subscription price per Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

4.2 ***Bonus Issues***

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be increased on the Business Day ("**Bonus Issue Adjustment Date**") on which trading in the Units becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

4.3 ***Subdivisions or Consolidations***

If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

4.4 ***Merger or Consolidation***

If it is announced that the Trust is to or may merge or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 4.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

4.5 ***Cash Distribution***

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the date on which the Units are traded on an ex-Ordinary Distribution basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

5. Termination or Liquidation

In the event of a Termination, liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Product Condition 5, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

6. Delisting

6.1 ***Adjustments following delisting***

If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

6.2 ***Listing on another exchange***

Without prejudice to the generality of Product Condition 6.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

PART C — PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/ BEAR CONTRACTS OVER AN INDEX

These Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Launch Announcement and Supplemental Listing Document, subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Product Conditions and not otherwise defined herein shall have the meaning given to them in the relevant Launch Announcement and Supplemental Listing Document.

1. Definitions

For the purposes of these Product Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Cash Settlement Amount**" means, in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula (and, if appropriate, either (X) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (Y) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is different from the Strike Level;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Day of Notification**" means the Trading Day immediately following the day on which a Mandatory Call Event occurs;

"**Designated Bank Account**" means the relevant bank account designated by each Holder;

"**Divisor**" means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 4;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early expiration of CBBCs upon the occurrence of a Mandatory Call Event or exercise of CBBCs upon expiry;

"**First Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**General Conditions**" means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

"**Index**" means the index specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Index Exchange**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Interim Currency**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Last Trading Day**" means the trading day on the Stock Exchange immediately preceding the Expiry Date;

"**Mandatory Call Event**" means that the Spot Level of the Index on any Index Business Day during the Observation Period is:

(a) in the case of a series of bull CBBCs, at or below the Call Level; or

(b) in the case of a series of bear CBBCs, at or above the Call Level;

"**Market Disruption Event**" means:

(a) the occurrence or existence on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (a), (X) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (Y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Product Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Date**" means the last Trading Day during the MCE Valuation Period;

"**MCE Valuation Period**" means:

(a) in respect of an Index Exchange located in Hong Kong, the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Level(s) is/are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Level(s) is/are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available.

In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(A) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(B) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only; and

(b) in respect of an Index Exchange located outside Hong Kong, the period specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date up to and including the close of trading on the Last Trading Day. For the avoidance of doubt, the Observation Period shall not be extended notwithstanding that the Valuation Date shall not fall on the Last Trading Day;

"**Post MCE Trades**" has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Price Source**", if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

"**Product Conditions**" means these product terms and conditions;

"**Residual Value**" means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either, converted (if applicable) into the Settlement Currency at the Exchange Rate, or converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) In the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) In the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**Settlement Currency**" means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions (as the case may be);

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount (if any) electronically through CCASS to the Designated Bank Account;

"**Second Exchange Rate**" means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Spot Level**" means, unless otherwise specified in the relevant Launch Announcement and Supplemental Listing Document, the spot level of the Index as compiled and published by the Index Compiler;

"**Strike Level**" means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document;

"**Successor Index**" means the successor index specified in the relevant Launch Announcement and Supplemental Listing Document;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to be open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level of the Index on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs, or for the Guarantor to perform its obligations under the Guarantee, in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

3. Exercise of CBBCs

3.1 ***Exercise of CBBCs in Board Lots***

CBBCs may only be exercised in Board Lots or integral multiples thereof.

3.2 ***Automatic Exercise***

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

3.3 ***Mandatory Call Event***

(a) Subject to Product Condition 3.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer will give a notice of the Mandatory Call Event and early expiry of the CBBCs (the "**Announcement on MCE and Early Expiration**") to the Holders in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.

In the case of Category R CBBCs, the Issuer will give a notice of the valuation of the Residual Value (the "**Announcement on Valuation of Residual Value**") to the Holders before the end of the trading session of the Stock Exchange immediately after the corresponding trading session of the Stock Exchange during which the MCE Valuation Period ends in accordance with General Condition 7.

(b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited; or

(ii) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (i) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked, and

(B) in the case of an error by the relevant price source prescribed in paragraph (ii) above, such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case,

(A) in respect of an Index Exchange located in Hong Kong, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Day of Notification or such other time frame as prescribed by the Stock Exchange from time to time; or

(B) in respect of an Index Exchange located outside Hong Kong:

(1) the revocation of the Mandatory Call Event is communicated to the other party by 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Day of Notification or such other time frame as prescribed by the Stock Exchange from time to time; and

(2) the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked on the Day of Notification.

In both cases:

(C) the Mandatory Call Event so triggered will be reversed; and

(D) all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume no later than the Trading Day immediately following the Day of Notification in accordance with the rules and/ or requirements prescribed by the Stock Exchange from time to time.

3.4 ***Entitlement***

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

3.5 ***Cancellation***

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Date or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

3.6 ***Exercise Expenses***

(a) Any Exercise Expenses which were not determined by the Issuer:

(i) during the MCE Valuation Period following the Mandatory Call Event; or

(ii) otherwise, on the Expiry Date (as the case may be), and were not deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with Product Condition 3.7, shall be notified to the Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the Holder to the Issuer immediately upon demand.

(b) Holders shall note that they shall be responsible for additional costs and expenses in connection with any early expiration or exercise of the CBBCs including the Exercise Expenses which amount shall, to the extent necessary, be payable to the Issuer and collected from the Holders.

3.7 ***Cash Settlement***

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount (net of any Exercise Expenses) (if any) to the relevant Holder. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount (net of any Exercise Expenses) (if any) will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

3.8 ***Responsibility of Issuer, Guarantor and Sponsor***

None of the Issuer, the Guarantor, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Product Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities, contracts, commodities or currencies comprising the Index.

3.9 ***Liability of Issuer, Guarantor and Sponsor***

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and neither the Issuer, the Guarantor nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. Neither the Issuer, the Guarantor nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

3.10 ***Trading***

Subject to Product Condition 3.3(b), trading in CBBCs on the Stock Exchange shall cease:

(a) immediately upon the occurrence of a Mandatory Call Event; or

(b) at the close of trading for the Trading Day immediately preceding the Expiry Date, whichever is the earlier.

4. Adjustments to the Index

4.1 ***Successor Index Compiler Calculates and Reports Index***

If the Index is:

(a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or

(b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

4.2 ***Modification and Cessation of Calculation of Index***

If:

(a) on any Index Business Day before the Expiry Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or

(b) on any Index Business Day before the Expiry Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Index Business Day as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the relevant exchange).

APPENDIX 4 — A BRIEF GUIDE TO CREDIT RATINGS

Information set out in this Appendix 4 is based on, extracted or reproduced from the website of Moody's at https://www.moodys.com as of the day immediately preceding the date of this document. Information appearing on this website does not form part of this document, and we accept no responsibility for the accuracy or completeness of the information appearing on this website, except that we have accurately extracted and reproduced such information in this Appendix 4 and take responsibility for such extraction and reproduction. We have not separately verified such information. There can be no assurance that such information will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided in this Appendix 4 and/or what a credit rating means, you should seek independent professional advice.

What is a credit rating?

A credit rating is a forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

What do the credit ratings mean?

Below are guidelines issued by Moody's on what each of their investment-grade ratings means as of the day immediately preceding the date of this document.

Moody's long-term ratings definitions

Aaa

Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.

Aa

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A

Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa

Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.

Modifiers "1", "2" and "3"

Moody's appends numerical modifiers 1, 2 and 3 to each of the above generic rating classifications (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to https://www.moodys.com/Pages/amr002002.aspx for further details.

Rating Outlooks

A rating outlook indicates the potential direction of a long-term credit rating over the intermediate term. A rating outlook issued by Moody's will usually indicate whether the potential direction is likely to be "positive", "negative", "stable" or "developing". Please refer to the abovementioned website of Moody's for further details regarding rating outlooks published by it.

APPENDIX 5 — THE ISSUER'S FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2017

The information in this Appendix 5 has been extracted from our Annual Report 2017 as at and for the year ended 31 December 2017. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 5.

Balance sheet

Assets

	APPENDIX	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	CHANGE TO 31.12.2016 CHF 1,000	IN %
Liquid assets		2,803,842	2,944,215	–140,374	–4.8
Amounts due from banks		1,584,072	1,358,212	225,860	16.6
Amounts due from securities financing transactions	1	1,015,709	823,059	192,650	23.4
Amounts due from customers	2	3,297,303	2,903,050	394,252	13.6
Mortgage loans	2	235,921	56,586	179,335	316.9
Trading portfolio assets	3	3,763,723	2,351,781	1,411,942	60.0
Positive replacement values of derivative financial instruments	5	464,746	398,941	65,805	16.5
Financial investments	6	1,683,328	2,043,271	–359,943	–17.6
Accrued income and prepaid expenses		108,540	89,934	18,606	20.7
Participations		8,489	8,489		
Tangible fixed assets		147,979	145,377	2,602	1.8
Intangible assets		16,929		16,929	
Other assets	7	228,026	285,180	–57,154	–20.0
Total assets		**15,358,606**	**13,408,096**	**1,950,510**	**14.5**

Liabilities

	APPENDIX	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	CHANGE TO 31.12.2016 CHF 1,000	IN %
Amounts due to banks		1,359,088	1,227,334	131,753	10.7
Amounts due in respect of customer deposits		10,133,936	9,638,994	494,942	5.1
Trading portfolio liabilities	4	158,184	99,657	58,528	58.7
Negative replacement values of derivative financial instruments	5	854,782	587,872	266,910	45.4
Liabilities from other financial instruments at fair value	4, 12	1,575,299	720,216	855,083	118.7
Accrued expenses and deferred income		167,170	148,956	18,214	12.2
Other liabilities	8	306,274	217,162	89,112	41.0
Provisions	13	141,205	133,704	7,501	5.6
Bank's capital	14	149,000	149,000		
Statutory capital reserve		98,768	98,768		
of which tax-exempt capital contribution reserve		*98,768*	*98,768*		
Statutory retained earnings reserve	18	213,206	213,206		
Voluntary retained earnings reserve		57,600	57,600		
Profit carried forward		95,512	97,679	–2,167	–2.2
Profit (result of the period)		48,581	17,948	30,633	170.7
Total liabilities		**15,358,606**	**13,408,096**	**1,950,510**	**14.5**

Off-balance sheet operations

	APPENDIX	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	CHANGE TO 31.12.2016 CHF 1,000	IN %
Contingent liabilities	2	469,341	254,470	214,870	84.4
Irrevocable commitments	2	89,410	30,932	58,478	189.0

Income statement

	APPENDIX	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000	CHANGE TO 31.12.2016 CHF 1,000	IN %
Result from interest operations					
Interest and discount income	23	*41,599*	*32,396*	*9,202*	*28.4*
Interest and dividend income from trading portfolio		*44,261*	*41,374*	*2,888*	*7.0*
Interest and dividend income from financial investments		*28,135*	*26,956*	*1,179*	*4.4*
Interest expense	23	*4,585*	*2,793*	*1,792*	*64.2*
Gross result from interest operations		**118,581**	**103,519**	**15,062**	**14.5**
Changes in value adjustments for default risks and losses and losses from interest operations		*–2,114*	*–2,153*	*38*	*–1.8*
Subtotal net result from interest operations		**116,466**	**101,366**	**15,100**	**14.9**
Result from commission business and services					
Commission income from securities trading and investment activities		*331,650*	*300,281*	*31,369*	*10.4*
Commission income from lending activities		*1,055*	*1,006*	*49*	*4.9*
Commission income from other services		*77,394*	*63,906*	*13,488*	*21.1*
Commission expense		*–96,625*	*–84,051*	*–12,574*	*15.0*
Subtotal result from commission business and services		**313,474**	**281,142**	**32,332**	**11.5**
Result from trading activities and the fair value option	22	**81,568**	**77,901**	**3,666**	**4.7**
Other result from ordinary activities					
Result from the disposal of financial investments		*12,943*	*5,029*	*7,914*	*157.4*
Income from participations		*3,416*	*3,192*	*223*	*7.0*
Other ordinary income		*9,071*	*1,267*	*7,803*	*615.7*
Other ordinary expenses		*–2,632*	*–999*	*–1,633*	*163.4*
Subtotal other income from ordinary activities		**22,797**	**8,489**	**14,308**	**168.5**
Operating expenses					
Personnel expenses	24	*–320,222*	*–301,995*	*–18,227*	*6.0*
General and administrative expenses	25	*–112,981*	*–104,993*	*–7,988*	*7.6*
Subtotal operating expenses		**–433,203**	**–406,988**	**–26,215**	**6.4**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets		*–49,153*	*–52,284*	*3,131*	*–6.0*
Changes to provisions and other value adjustments, and losses	26	*–1,905*	*–21,897*	*19,992*	*–91.3*
Operating result		**50,044**	**–12,270**	**62,313**	**–507.9**
Extraordinary income	26	197	31,413	–31,216	
Taxes	27	–1,660	–1,195	–464	38.8
Profit		**48,581**	**17,948**	**30,633**	**170.7**

Appropriation of profit

Profit		48,581	17,948	30,633	170.7
Profit carried forward		95,512	97,679	–2,167	–2.2
Distributable profit		**144,093**	**115,627**	**28,466**	**24.6**
Appropriation of profit					
Distribution from distributable profit		*–48,574*	*–20,115*	*–28,459*	*141.5*
New amount carried forward		**95,519**	**95,512**	**7**	**0.0**

Statement of equity

CHF MN	BANK'S CAPITAL	STATUTORY CAPITAL RESERVES	STATUTORY RETAINED EARNINGS RESERVES	VOLUNTARY RETAINED EARNINGS RESERVES AND PROFIT CARRIED FORWARD	RESULT OF THE PERIOD	TOTAL
Equity as of 01.01.2017	**149.0**	**98.8**	**213.2**	**155.3**	**17.9**	**634.2**
Appropriation of profit 2016						
Dividend					*–20.1*	*–20.1*
Net change in profit carried forward				*–2.2*	*2.2*	
Profit of the year					48.6	48.6
Equity as of 31.12.2017	**149.0**	**98.8**	**213.2**	**153.1**	**48.6**	**662.7**

Appendix

1. Name, legal form and domicile

1.1 The Bank
Bank Vontobel AG is a public limited company under Swiss law. Services are provided at the bank's head office in Zurich and at its branches in Basel, Berne, Geneva, Lugano and Lucerne. It is a 100% subsidiary of Vontobel Holding AG, Zurich.

2. Accounting and valuation principles

2.1 Type of financial statements and presentation
The reliable assessment statutory single-entity financial statements of Bank Vontobel AG were prepared in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) concerning accounting rules for banks (FINMA Circular 2015/1) and the Swiss Code of Obligations. The accounting year end is 31 December. Since Vontobel prepares consolidated financial statements in accordance with IFRS, Bank Vontobel AG makes use of disclosure exemptions in the single-entity financial statements.

The figures contained in the tables have been rounded. The total may therefore differ from the sum of the individual figures. An empty space means that the corresponding line item does not have any value. 0.0 means that the corresponding line item contains a value that amounts to 0.0 when rounded.

2.2 Recognition of transactions
Purchases and sales of financial assets are recorded on the trade date in the balance sheet.

2.3 Foreign currency translation
Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Profit and losses arising from exchange differences in foreign currency positions are recognized in trading income.

	BALANCE SHEET RATES AS OF 31.12.2017	BALANCE SHEET RATES AS OF 31.12.2016
USD	0.97450	1.01635
JPY	0.86507	0.87139
EUR	1.17018	1.07200
GBP	1.31825	1.25585

2.4 Valuation and recognition of individual positions

2.4.1 Liquid assets, receivables due from banks and clients, mortgages as well as borrowed funds
These are carried in the balance sheet at their nominal value. Specific valuation adjustments are made for identifiable risks of loan losses.

2.4.2 Determining fair value of financial instruments
If a financial instrument is traded in an active market, its fair value is based on the listed market prices or the prices quoted by traders. Otherwise, the fair value is determined on the basis of valuation models or other generally accepted valuation methods. The appropriateness of the valuation of financial instruments that are not traded in an active market is ensured through the application of clearly defined methods and processes as well as independent controls. The control processes comprise the analysis and approval of new instruments, the regular analysis of risks as well as gains and losses, the verification of prices and the examination of the models on which the estimates of the fair value of financial instruments are based. These controls are conducted by units that possess the relevant specialist knowledge and operate independently from the trading and investment functions.

2.4.3 Trading
Fair value is used for the valuation of trading portfolio assets. Realized and unrealized gains and losses are recognized in "Result from trading activities and the fair value option" and interest and dividend income are recognized in "Net interest income".

2.4.4 Trading portfolio liabilities
Short positions are recognized at fair value in this balance sheet item. Realized and unrealized gains and losses are recognized in "Result from trading activities and the fair value option" and interest and dividend expense are recognized in "Net interest income".

2.4.5 Liabilities from other financial instruments at fair value
Products issued by the bank are recognized at fair value in this balance sheet item. Realized and unrealized gains and losses as well as any accrued or deferred interest are recognized in "Result from trading activities and the fair value option". In the case of products issued by the bank with an interest component, any impact of a change of own creditworthiness on fair value is neutralized and does not influence the income statement.

2.4.6 Derivative financial instruments
Derivative instruments are stated at fair value and shown in the balance sheet as positive and negative replacement

values. All income components from trading are recognized in “Result from trading activities and the fair value option”. Contract volumes are disclosed in note 5. Information on derivatives used in hedge accounting is provided in the next section.

2.4.7 Hedge Accounting
Bank Vontobel AG is exposed to volatility in future interest income (or interest cash flows) on secured loans (lombard loans), the majority of which bears short-term interest and is likely to be reinvested. Bank Vontobel AG hedges part of this interest income using multi-year receiver interest rate swaps. The amount and the timing of future interest income is forecast, taking account of the contractual terms of the secured loans and other relevant factors. Interest rate swaps are recognized at fair value as positive or negative replacement values, whereby changes in the value of the effective portion of interest rate swaps are recognized in the compensation account and changes in the value of the ineffective portion of interest rate swaps are recognized in the item “Result form trading activities and the fair value option”.

2.4.8 Financial investments
Securities acquired without the intention of being held until maturity are stated at the lower of amortized cost or market. Interest is accrued in the period in which it is earned using the effective interest method and recognized together with dividend income in the item “Interest and dividend income from financial investments”. Foreign exchange income is recognized in “Result from trading activities and the fair value option”. The net balance of market-induced value adjustments is recognized in “Other ordinary income” or, as the case may be, in “Other ordinary expense”. When a financial investment is sold, the difference between the carrying value and the sale price is reported as “Result from the disposal of financial investments”.

2.4.9 Participations
Equity securities owned by the bank in enterprises, where the securities are intended to be a permanent investment, are classed as participations. At Bank Vontobel AG, they comprise shares in companies of an infrastructural nature. The participations are recognized at acquisition costs less economically necessary value adjustments. They are tested for impairment at each balance sheet date. Dividends received are reported in “Income from participations”.

2.4.10 Securities lending and borrowing transactions
Own securities that have been lent continue to be reported as a trading position or financial investment as long as control over the securities has not been surrendered. Borrowed securities are not carried in the balance sheet as long as the control over the securities remains with the lender. The re-sale of securities received is shown at market value in the item “Trading portfolio liabilities”.

In securities borrowing agreements, cash collateral provided is recognized in the balance sheet as “Amounts due from securities financing transactions”. In securities lending agreements, cash collateral received is recognized in the balance sheet as “Liabilities from securities financing transactions”. Fees and interest from securities lending and borrowing operations are recognized as interest income and interest expense, respectively.

2.4.11 Repurchase and reverse-repurchase agreements
Repurchase and reverse-repurchase agreements are treated as secured financing agreements. Securities received within the scope of reverse-repurchase agreements and securities delivered within the scope of repurchase agreements are recognized on or removed from the balance sheet only if control over the contractual rights that comprise these securities has been transferred.

In reverse-repurchase agreements, cash collateral provided is recognized in the balance sheet as “Amounts due from securities financing transactions”. In repurchase agreements, the cash collateral received is recognized in the balance sheet as “Liabilities from securities financing transactions. Interest income from reverse-repurchase agreements and interest expense from repurchase agreements are recognized over the term of the corresponding transactions on an accrual basis.

2.4.12 Tangible fixed assets
Property, plant and equipment is sub-divided into leasehold improvements, other tangible fixed assets (furniture, information technology and telecommunications equipment), tangible assets in finance lease and software (purchased and internally developed, including software in development). The cost of acquisition or construction is capitalized if the Bank is likely to receive an economic benefit derived there from in the future and the costs can be identified as well as reliably projected. Depreciation is computed on a straight-line basis over the useful life period of 3 to 10 years. Property, plant and equipment are tested for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the recoverable value, an impairment loss will be recognized.

2.4.13 Intangible Assets
Intangible assets comprise client relationships, which are amortized on a straight-line basis over 10 years. The client relationships are tested for impairment if results or circumstances indicate that the carrying amount may be impaired. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded.

2.4.14 Accruals and deferrals
Items in the income statement unrelated to the accounting period are accrued or deferred. Interest and commissions due from clients and banks that are more than 90 days in arrears are not credited until actually received.

2.4.15 Value adjustments and provisions
Based on the size and structure of the credit portfolio, as well as Vontobel’s policy of essentially only granting on a secured basis or to counterparties with very high creditworthiness, only specific allowances are made for credit losses. A loan is considered impaired when it is likely that the amount due according to the contractual terms cannot be entirely collected. If the debtor’s total exposure exceeds

the estimated realizable disposal value of the collateral and if the assessment of the debtor's creditworthiness does not justify such an unsecured portion, an allowance for credit loss in the corresponding amount is made in the income statement. The reasons for impairment are specific to the relevant counterparties or countries. Interest income on loans that are not overdue is accrued in the period incurred. As a rule, removal from the books occurs at the time when a legal title confirms the conclusion of the liquidation process. Default-related value adjustments and losses from interest operations are recognized in "Net interest income". Value adjustments are deducted from the corresponding assets. Provisions for other business that are operationally necessary are recognized through the item "Changes to provisions and other value adjustments, and losses". The general risks associated with banking activities are covered by precautionary provisions.

2.4.16 Accrual of earnings
Income from services rendered over a specific period of time is recorded on a pro rata basis for the duration of the service. This includes asset management fees and custody fees. Profit-based income is not recorded until all of the relevant criteria have been met. This type of income may, for example, be generated in the corporate finance business. Interest is accrued in the relevant period. Dividends are recorded when payment is received.

2.4.17 Income taxes
Current income taxes are calculated on the basis of the applicable tax laws and recognized as expense in the period in which the related profits are made. The tax effects of loss carryforwards are not taken into consideration. Current income taxes are calculated on the basis of the applicable tax laws and recognized as expense in the period in which the related profits are made. The tax effects of loss carryforwards are not taken into consideration.

2.4.18 Employee and management stock ownership plans
According to the bonus model of Vontobel, employees of Bank Vontobel AG are offered an annual bonus as well as a performance-related future allocation of shares. Employees have the right and / or the obligation to draw part of their annual bonus in shares of Vontobel Holding AG instead of cash. The fair value of these shares at grant date is charged to personnel expense. Employees who elect to draw part of their annual bonus in shares are entitled to receive a further allocation of shares of Vontobel Holding AG after three years have lapsed depending on the performance of the business. The anticipated liability as of the end of the vesting period (estimated number of shares to be allocated multiplied by the fair value of the Vontobel Holding AG share as of the balance sheet date, less the present value of the anticipated dividends between the balance sheet date and the allocation date) for these so-called performance shares is accrued on a pro rata temporis basis. The change in this accrual is recorded in the personnel expense for the corresponding period.

2.4.19 Pension funds
If a pension fund has a shortfall according to Swiss GAAP FER 26, Bank Vontobel AG records a liability in the amount of the probable outflow of funds required to make up the shortfall. A pension fund surplus (incl. employer contribution reserves) is not capitalized as a future economic benefit.

2.4.20 Extraordinary expense and income
Expense and income that are both non-recurring and not related to ordinary operating activities are classed as extraordinary.

2.4.21 Contingent liabilities, irrevocable commitments
These are reported off the balance sheet at their nominal value.

2.5 Changes to accounting and valuation principles
There were no changes to accounting and valuation principles in the year under review.

2.6 Disclosures relating to capital and liquidity
In accordance with FINMA Circular 2016 / 01 (Capital adequacy and liquidity disclosure requirements), Bank Vontobel AG benefits from an extended consolidation discount. The minimum disclosure nevertheless required in this context according to Appendix 4 is shown on page 27. Detailed information on capital and liquidity is provided in the consolidated Annual Report of Vontobel, pages 148 to 158.

2.7 Acquisition of the Eastern European asset management portfolio of Notenstein La Roche
The acquisition of the Eastern European client portfolio of Notenstein La Roche was completed in December 2017. In the course of the acquisition, around 10 employees transferred to Vontobel and joined its existing Central & Eastern Europe team.

Assets and liabilities were included in Vontobel's consolidated financial statements as follows:

CHF MN	01.12.2017
Assets	
Liquid assets	572.3
Amounts due from customers	99.4
Intangible assets	17.1
Total assets	**688.8**
Liabilities	
Amounts due in respect of customer deposits	671.7
Accrued expenses and deferred income	0.1
Equity	17.0
Total liabilities	**688.8**

The estimated acquisition price of CHF 17.0 mns was recognized as a liability. It corresponds to a percentage of the income generated from the acquired clients in the first three years.

Intangible assets (excluding goodwill) comprise the acquired client relationships. They will be amortized over 10 years.

2.8 Important events after the balance sheet date
No events have occurred since the balance sheet date that affect the relevance of the information provided in the 2017 financial statements and would therefore need to be disclosed.

3. Risk management and risk control

3.1 Risk policy
For Bank Vontobel AG, Zurich – as part of an internationally oriented Swiss banking group specializing in wealth and asset management and investment banking – a conscious and prudent approach to risk is a prerequisite for the achievement of sustained, long-term success. The bank assumes risks as an inherent part of the activities of its two divisions, Wealth Management and Investment Banking. The Group-wide risk culture, which is firmly established at every level of the company and is reviewed on an ongoing basis, ensures that risks are recognized and that appropriate control and mitigation mechanisms are implemented and refined in all areas of the organization, including Bank Vontobel.

Vontobel's risk policy defines the relevant risk categories and the corresponding risk profiles, as well as the powers of authorization, organizational structure, methods and processes relating to the management and control of risks. The appropriateness of the risk policy is reviewed at least once annually by the Board of Directors. The Risk Management and Risk Control units are responsible for managing and controlling the risks with the utmost care. Vontobel is managed strictly according to functional criteria. This is also the case at Bank Vontobel AG, Zurich, which is 100% owned by Vontobel Holding AG. Consequently, the risk management and risk controls of Bank Vontobel AG, Zurich form part of the Group-wide processes and methods. They are explained in detail in the Vontobel's Annual Report (pages 135 to 147).

3.2 Strategic risk
Vontobel defines strategic risk as the risk that the strategic objectives it has set, and the operational objectives derived from them, will not be realized in the course of current business operations due to a failure to adequately adapt to changing operating conditions or as a result of decisions that subsequently prove to be wrong. Strategic risk is regularly reviewed and assessed as part of Vontobel's holistic approach to risk monitoring, with a particular focus being placed on the assessment of the environment and of the company's strategic direction. The Executive Board is informed of the qualitative results of the analysis, which are approved by the Board of Directors.

If necessary, risk mitigation measures are defined and implemented. These measures are also taken into account in strategic and operational planning.

3.3 Market risk
3.3.1 General information
Market risk refers to the risk of losses occurring as a result of changes in market parameters such as interest rates, credit spreads, foreign exchange rates, stock prices or commodities prices and the corresponding volatilities. Market risks are relevant in various areas, both within and outside Investment Banking.

In Investment Banking, the major proportion of risk positions originates from the business with proprietary products such as warrants, certificates and structured products, as well as the hedging of these instruments. The Financial Products unit in Investment Banking is responsible for these positions, as well as for foreign exchange and money market trading, the management of the foreign exchange position and collateral trading (repo transactions and securities lending and borrowing transactions).

Market risks are limited and monitored using a multi-level system of limits. In addition to the Value at Risk limits and stress exposure limits prescribed at a global level and for each trading unit, this system defines a wide range of detailed sensitivity limits and volume limits in order to control and limit risks.

Positions involving market risks are also held outside Investment Banking. These financial investments consist of broadly diversified portfolios and non-consolidated holdings, with the allocation to equities being maintained at a consistently low level. To quantify and limit risk, the same measurement methods – i.e. Value at Risk and stress exposure – are used for these positions at an aggregate level as for the positions held by Investment Banking.

Further information on market risks at overall balance sheet level (interest rate risks and currency risks) can be found in section 3.3 "Market risks related to the balance sheet structure" of the Vontobel Group's Annual Report (page 138).

3.3.2 Market risks related to Investment Banking and other Value at Risk (VaR) securities holdings
In line with the general market standard the management and control of market risks for the positions in Investment Banking as well as for securities holdings outside Investment Banking are based on Value at Risk and stress exposure measurements that are calculated daily. More detailed information on the methods used as well as the resulting exposures at Group level can be found in the Vontobel Group's Annual Report (pages 136 to 138).

— 3.3.2.1 Stress Exposure
In addition to the VaR limits that are based on a 99% confidence level, stress exposure limits have also been defined. The corresponding stress tests are conducted on a daily basis.

3.3.3 Market risks related to the balance sheet structure
The Treasury division is responsible for managing the balance sheet structure, capital and liquid assets. Interest rate risks and currency risks are monitored and limited as part of the Group's asset and liability management (ALM) activities. Treasury is also responsible for securing refinancing and monitoring liquidity risk on a continuous basis.

— 3.3.3.1 Interest rate risks

Interest rate risks and currency risks arise in balance sheet management as a result of differing interest commitments and foreign currencies on the asset and liability side of the balance sheet and in off-balance-sheet items. These risks are managed and monitored at an aggregate level (see the Vontobel Group's Annual Report, pages 138 to 141).

— 3.3.3.2 Currency risks

Like interest rate risks, currency risks resulting from trading and the balance sheet structure are managed and monitored on an aggregate basis at Group level (see the Vontobel Group's Annual Report, page 141). The overall market risks related to currency incongruities are very low.

3.4 Liquidity risk and refinancing

Liquidity risk refers to the risk of being unable to cover short-term funding needs at any time (e.g. due to the impossibility of substituting or renewing deposits, outflows of funds due to drawing on lending commitments or margin calls, etc.). Liquidity risk management ensures that Bank Vontobel and the Vontobel Group always have sufficient liquidity to meet their payment obligations, including in stress situations. Liquidity risk management therefore comprises operational risk measurement and control systems to guarantee their continued ability to pay their obligations at any time. It also determines strategies and requirements for the management of liquidity risk under stress conditions as part of the defined liquidity risk tolerance. They mainly include risk mitigation measures, the holding of a liquidity buffer comprising highly liquid assets, and a contingency plan to manage any liquidity shortfalls.

The diversification of sources of refinancing and access to the repo market ensure that cash and cash equivalents are rapidly available on a secured basis if required. Liquidity is monitored and assured on a daily basis. The continuous monitoring of the volume and quality of available collateral also ensures that adequate refinancing capabilities are always available. In the event of an unexpected tightening of liquidity, it is also possible to access a portfolio of positions that retain their value and can easily be liquidated.

3.5 Credit risk

3.5.1 General information

Credit risk corresponds to the risk of losses if a counterparty fails to honour its contractual obligations. In the case of Bank Vontobel and the Vontobel Group, this comprises:
- Default risks from collateral loans and mortgage-backed loans
- Default risks from bond positions (issuer risk)
- Default risks from money market investments
- Default risks related to securities lending and borrowing, repo transactions, collateral management and derivatives, as well as
- Default risks related to settlement

Bank Vontobel and the Vontobel Group are, in principle, not active in the commercial lending business.

Mortgages to finance the purchase of real estate and lombard loans are offered to our clients and employees.

Like the other risk categories, credit risks and counterparty risks are managed and monitored at Group level on the basis of the functional organization. Detailed information on the corresponding processes and methods, as well as the aggregate exposures, can be found in the Vontobel Group's Annual Report (pages 142 to 145).

3.5.2 Lending to private and institutional investment clients

In the case of private and institutional investment clients, Bank Vontobel AG, Zurich, engages primarily in lending against collateral ("lombard lending"), i.e. the granting of loans subject to the provision of securities that serve as easily realizable collateral. As a restriction on lending, limits on blanket credit lines are set for each client. These limits cover all the positions assumed in respect of each client. These exposures (including the risk add-ons determined by the type of exposure) must essentially be covered by the collateral value of the collateral (securities after haircuts).

In addition, mortgages to finance the purchase of real estate are offered to our clients and employees.

— 3.5.2.1 Valuation of collateral

In the case of loans against collateral, transferable financial instruments (such as investment funds, bonds and equities) that are liquid and are actively traded are accepted by the bank. It also accepts transferable structured products for which regular price information and a market maker are available. The bank applies haircuts to market values to cover the market risk associated with securities and to determine their collateral value.

The collateral value of positions and portfolios is generally determined in accordance with the "comprehensive approach" prescribed in the capital adequacy requirements of the Basel Committee on Banking Supervision (Basel III). The quality of the collateral (volatility, rating, liquidity and tradability) and the diversification of the portfolio and currency risks are considered in the calculation.

The bank's contingency planning concept comprises an assessment of financing sources in a difficult market environment, takes account of market status indicators and coverage ratios, and describes contingency measures. The bank prepares for a crisis scenario by diversifying its sources of financing. All significant anticipated outflows of funds and the availability of high-quality collateral that could be used to raise additional liquidity are regularly reviewed.

In the case of loans secured by a lien on real estate, a current valuation of the collateral is obtained for every loan that is provided . This serves as the basis for the granting of the loan by the bank. The granting of loans also depends on the use of the property. The valuation principles set out in paragraph 3.5.2.2 apply in this context.

— 3.5.2.2 Methods to identify default risks and to determine the need for value adjustments

Exposures and the value of collateral for securities-backed loans are monitored on a daily basis. In cases where the exposures are covered by market values but not by collateral values (i.e. after taking account of haircuts), a default process is initiated with the aim of restoring cover through the reduction of the exposures, portfolio switches or the provision of additional collateral. If the shortfall in cover increases or if exceptional market conditions occur, the collateral is liquidated to offset the loan.

In the case of mortgage-backed loans, the bank has access to estimates. Using these valuations, the bank periodically updates the loan-to-value ratio. In addition, an analysis is conducted in the case of interest payments and capital repayments that are in arrears. This enables the bank to identify mortgages that pose higher levels of risk. Where necessary, additional collateral is requested or an appropriate value adjustment is recorded based on the shortfall in cover.

Client exposures that are only secured from a market value perspective (but not after the application of collateral haircuts) or exposures that are secured by collateral that is not recognized according to the guidelines of the Basel Committee on Banking Supervision are only assumed in exceptional cases.

Other unsecured loans can arise as a result of unsecured account overdrafts. These are identified directly by Wealth Management and assessed. If material risks exist, the Credit department performs a detailed assessment and consults with Wealth Management to determine whether action needs to be taken. If, during this phase, it is to be assumed that the credit exposure is at risk, a corresponding value adjustment is considered.

The need for a new value adjustment or provision to be recorded is determined according to the procedure described above. In addition, known risk positions that were already identified as being at risk are reassessed on each balance sheet date and the value adjustment is amended if necessary. The Risk Committee assesses and approves the aggregate value adjustments recorded in respect of risk positions.

3.5.3 Exposures to professional counterparties and issuer risk

Bank Vontobel and the Vontobel Group have both secured and unsecured exposures to professional counterparties.

Secured exposures result from securities lending and borrowing, repo transactions, the collateral management of margin obligations and margin calls, as well as the collateralization of OTC derivatives that are eligible for netting. The mitigation of credit risks using securities as easily realizable collateral is of key importance for these types of transactions. The transactions are generally concluded on the basis of collateralized netting agreements with strict requirements regarding eligible collateral, appropriate contractual collateral values and low contractual thresholds and minimum transfer amounts. The daily calculation as well as the comparison of credit exposures and collateral are a core element of the management and monitoring of credit risks. During this process, conservative add-on factors are applied to the credit exposures and conservative haircuts are applied to the collateral in accordance with the “comprehensive approach” prescribed in the capital adequacy requirements of the Basel Committee on Banking Supervision (Basel III). The different add-ons and haircuts are determined according to the instrument, rating, term to maturity, liquidity and tradability.

Unsecured exposures mainly comprise the issuer risks in bond portfolios held in Investment Banking or for the purpose of balance sheet management. They also include exposures relating to money market transactions, accounts, guarantees and contractual independent amounts (threshold values and minimum transfer amounts) that are agreed with counterparties in netting agreements for securities lending and borrowing, repurchase agreements and the collateralization of OTC derivatives.

Settlement risks are reduced through the use of the Continuous Linked Settlement (CLS) system when conducting foreign currency transactions. Vontobel is connected to the CLS system as a third party.

All exposures to professional counterparties are monitored and restricted using a differentiated system of limits for the individual counterparty categories, rating segments, countries and regions.

Bank Vontobel and the Vontobel Group base the management and limitation of exposures to professional counterparties on internal assessments by the Credit Management unit as well as on the ratings of external agencies recognized by the FINMA. It uses the ratings of Fitch, Moody’s, S&P and Fedafin (only public sector entities). If various ratings exist for a specific position, the relevant rating is assigned according to the rules prescribed by the Basel Committee on Banking Supervision.

3.6 Operational risks

3.6.1 General information

Operational risks represent the risk of losses resulting from the inadequacy or failure of internal processes, people and systems or from external events.

3.6.2 Processes and methods

All business activities entail operational risks, which are prevented, mitigated, transferred or even assumed based on cost / benefit considerations. During this process, potential legal, regulatory and compliance-related risks are taken into account, as are follow-on risks in the form of reputational risks.

The Group-wide process model represents the basis for the management of operational risks. As part of the systematic assessments that are performed annually, the operational risks in all critical processes and process entities are identified and evaluated. In addition, further attention is focused on core security topics such as data protection and business continuity management, which are guaranteed through the use of extra tools.

— 3.6.2.1 Qualitative assessment

The qualitative assessment of operational risks is carried out using estimates of the loss potential and possible frequency of these risks. Once these inherent risks have been calculated, existing controls and further risk mitigation measures are taken into account to determine the residual risks. These residual risks are considered in order to determine compliance with pre-defined risk tolerances. If risk tolerances are exceeded, further risk mitigation measures are defined.

— 3.6.2.2 Quantitative assessment

In addition to qualitative assessments, quantitative methods are also used to measure and monitor operational risks. They include the monitoring of key risk indicators and the development of those indicators for all divisions. The risks measured in this context are also compared with the relevant pre-defined risk tolerances and if these tolerances are exceeded, further risk mitigation measures are defined.

— 3.6.2.3 Internal Control System

All measures to control operational risks form part of the Internal Control System (ICS). Consequently, the ICS encompasses all control elements that ensure the necessary framework for the achievement of strategic business objectives and the orderly running of operations at all levels of the organization. The ICS is reviewed at least once annually and is adapted or strengthened if necessary.

3.6.3 Legal, regulatory and compliance-related risks

Legal and compliance-related risks are the risk of losses occurring due to non-compliance with or the infringement of applicable laws, internal or external codes of conduct and market practices, as well as contractual obligations. Issues such as these may not only lead to financial losses but can equally result in regulators imposing fines and measures on the organization or can give rise to reputational harm. Regulatory risk is essentially the risk that changes to laws and rules of conduct could impact on Vontobel's activities.

As a market participant in the financial services industry, Vontobel is subject to extensive regulations and requirements defined by government bodies, regulatory authorities and self-regulatory organizations in Switzerland and other countries in which Vontobel operates.

To prevent or mitigate legal, regulatory and compliance-related risks, Vontobel has implemented the relevant structures and processes that are designed to raise employee awareness of or to provide initial or further training for employees about this topic. In addition, Vontobel has an appropriate system of policies and effective control processes in place to ensure compliance with legal and regulatory framework conditions. The corresponding compliance standards are regularly reviewed by Vontobel and adapted to regulatory and legal developments.

3.6.4 IT & cyber risks

Due to our business model, we operate in a complex technological environment. The protection of confidentiality, integrity and the availability of IT systems is therefore of critical importance for our operations.

IT risk forms part of our operational risks and represents the risk that a technical failure could affect our business activities. These risks are not only inherent in our IT infrastructure but also affect the employees and processes that interact with it. It is essential that the data used to support centralized business processes and reporting is secure, complete, accurate and up to date and that it meets appropriate quality standards.

In addition, our critical IT systems must be secure and resilient and have the necessary ability, capacity and adaptability to meet our current and future business objectives, client needs, and regulatory and legal requirements.

Cyber risk is an integral part of IT risk and involves cases where the functioning of our systems is compromised as a result of cyber attacks, security breaches, unauthorized access, loss or destruction of data, unavailability of services, computer viruses or other security-related events.

To prevent and manage IT and cyber risks, various tools are used as part of our comprehensive IT risk management approach, both at operational level and in terms of business continuity and other crisis and emergency plans.

3.6.4 Insurance

Vontobel's insurance policy is aligned with the Group's operational risk management and financial risks.

In the first instance, Vontobel strives to prevent or mitigate risks as far as possible in accordance with the Group's risk policy. In a second step, it determines whether Vontobel can and should bear the risks itself. If this is not the case, the risks are covered by insurance policies. In particular, the Group insures against risks of a catastrophic nature in order to protect its capital base.

The internal Insurance unit analyses and evaluates the need for insurance measures on an ongoing basis.

Various other factors are taken into account when purchasing insurance. They mainly comprise legal requirements (compulsory insurance). However, a whole series of other business considerations lead to a wide range of risks for which insurance cover is acquired.

3.7 Reputational risks

A reputational risk is understood to be the risk of events occurring that could cause sustained harm to Vontobel's image. As such, reputational risks often constitute follow-on risks to the other risk categories described above.

Vontobel's ability to conduct its business depends to a significant extent on its reputation, which it has built over the bank's long history. It is therefore of key importance for Vontobel to safeguard its good name and all employees have to assign this matter the highest priority. Consequently, appropriate measures are taken on an ongoing basis to make employees aware of the key importance of Vontobel's reputation.

4. Use of derivative Instruments

4.1 Business policy when using derivative financial instruments

Derivative financial instruments are used for trading and hedging purposes. Trading in derivative financial instruments is carried out exclusively by specially trained traders. Both standardized and OTC instruments are traded on own account and on client account; this mainly involves instruments for interest rates, currencies, equity securities / indices and, to a small extent, commodities and credit derivatives.

As part of its risk management activities, the bank uses derivative financial instruments primarily to hedge interest rate, currency and equity risks. In the context of hedge accounting, risks from future transactions with external counterparties are assumed.

4.2 Use of hedge accounting

4.2.1 Hedged items and hedging transactions

The bank uses hedge accounting for most short-term interest-bearing secured loans (lombard loans) in the banking book. They are hedged using multi-year receiver interest rate swaps.

4.2.2 Objective

Bank Vontobel AG is exposed to volatility in future interest income (or cash flows) on secured loans (lombard loans), the majority of which bear short-term interest and are likely to be reinvested. The hedge with multi-year receiver interest rate swaps is aimed at hedging against the interest rate risks of future interest income, taking account of the amount and timing of future cash flows, as well as the contractual terms of the secured loans and other market factors.

4.2.3 Economic link between the hedged item and the hedging transaction

From the point in time when a financial instrument is classed as a hedging relationship, the bank documents the link between the hedging instrument and the hedged item. Among other things, it documents the risk management objectives and risk management strategy of the hedging transaction and the methods used to measure the effectiveness of the hedging relationship. The economic link between the hedged item and the hedging transaction is continuously measured on a prospective basis as part of the test of its effectiveness by monitoring factors such as an inverse change in value and its correlation.

4.2.4 Measurement of effectiveness

A hedge is considered to be highly effective if the following criteria are essentially met:

- The hedge is determined to be highly effective both upon initial recognition and during the hedging period.
- There is a close economic link between the hedged item and the hedging transaction.
- There is an inverse relationship between changes in the value of the hedged item and of the hedging transaction with regard to the hedged risk.
- The actual results of the hedge are in the 80–125% range.

Hedge accounting was effective in the year under review.

Notes to the balance sheet transactions

1 Breakdown of securities financing transactions (assets and liabilities)

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions[1]	1,015.7	823.1	192.7	23.4
Book value of the securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	197.6	114.8	82.7	72.1
with unrestricted right to resell or pledge	*197.6*	*114.8*	*82.7*	*72.1*
Fair value of the securities received and serving as collateral in connection with securities lending or securities borrowed in connection with securities borrowing as well as securities received in connection with reverse repurchase agreements with an unrestricted right to resell or repledge	1,566.0	1,332.6	233.4	17.5
of which, repledged securities	*373.8*	*691.0*	*–317.1*	*–45.9*
of which, resold securities	*159.8*	*68.9*	*90.9*	*131.9*

1 Before netting agreements

2 Presentation of collateral for loans / receivables and off-balance-sheet transactions

CHF MN	SECURED BY MORTGAGE	OTHER COLLATERAL	UNSECURED	TOTAL
Loans (before netting with value adjustments)				
Amounts due from customers		3,267.9	47.8	3,315.8
Mortgage loans	235.9		0.0	235.9
Residential property	*235.9*		*0.0*	*235.9*
Total loans in current year (before netting with value adjustments)	**235.9**	**3,267.9**	**47.9**	**3,551.7**
Total loans in previous year (before netting with value adjustments)	56.6	2,865.7	53.9	2,976.2
Total loans in current year (after netting with value adjustments)	**235.9**	**3,249.6**	**47.7**	**3,533.2**
Total loans in previous year (after netting with value adjustments)	56.6	2,849.3	53.7	2,959.6
Off-balance sheet				
Contingent liabilities		323.7	145.7	469.3
Irrevocable commitments		1.3	88.1	89.4
Total off-balance-sheet in current year		**324.9**	**233.8**	**558.8**
Total off-balance-sheet in previous year		144.7	140.7	285.4

Impaired loans / receivables

CHF MN	GROSS DEBT AMOUNT	ESTIMATED LIQUIDATION VALUE OF COLLATERAL	NET DEBT AMOUNT	INDIVIDUAL VALUE ADJUSTMENTS
Current year	**41.4**	**14.5**	**26.9**	**18.7**
Previous year	39.4	14.5	24.9	16.7

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

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Trading portfolio assets				
Debt securities, money market securities / transactions	589.8	592.7	–2.8	–0.5
of which, listed	*290.1*	*400.6*	*–110.5*	*–27.6*
Equity securities incl. investment funds	2,325.1	1,277.4	1,047.7	82.0
Precious metals and commodities	848.8	481.5	367.3	76.3
Other trading portfolio assets	0.0	0.3	–0.3	–99.3
Total assets	**3,763.7**	**2,351.8**	**1,411.9**	**60.0**
of which, determined using a valuation model	*277.6*	*92.7*	*184.9*	*199.5*
of which, securities eligible for repo transactions in accordance with liquidity requirements	*127.4*	*129.5*	*–2.1*	*–1.6*

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

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Trading portfolio liabilities				
Debt securities, money market securities / transactions	106.0	71.6	34.4	48.0
of which, listed	*106.0*	*71.6*	*34.4*	*48.0*
Equity securities incl. investment funds	52.2	28.1	24.1	85.9
Other financial instruments at fair value				
Structured products	1,575.3	720.2	855.1	118.7
Total liabilities	**1,733.5**	**819.9**	**913.6**	**111.4**
of which, determined using a valuation model	*1,575.3*	*720.2*	*855.1*	*118.7*

5 Presentation of derivative financial instruments (assets and liabilities)

	TRADING INSTRUMENTS			HEDGING INSTRUMENTS		
CHF MN	POSITIVE RV[1]	NEGATIVE RV[1]	CONTRACT VOLUME	POSITIVE RV[1]	NEGATIVE RV[1]	CONTRACT VOLUME
Debt instruments						
Swaps	*25.7*	*40.3*	*5,455.4*		*1.6*	*233.9*
Futures			*0.9*			
Options (OTC)	*2.7*	*5.5*	*8.0*			
Options (exchange traded)						
Foreign currency / precious metals						
Forward contracts	*7.3*	*7.0*	*898.4*			
Swaps	*110.0*	*113.7*	*8,269.1*			
Futures			*115.8*			
Options (OTC)	*12.0*	*48.3*	*1,977.1*			
Options (exchange traded)						
Equities / indices						
Swaps	*60.9*	*60.8*	*3,355.8*			
Futures			*834.5*			
Options (OTC)	*195.9*	*488.5*	*9,057.8*			
Options (exchange traded)	*31.3*	*47.6*	*3,144.2*			
Credit derivatives						
Credit Default Swaps	*18.6*	*18.7*	*2,201.2*			
Other						
Futures			*115.5*			
Options (OTC)	*0.4*	*22.7*	*55.1*			
Options (exchange traded)						
Total before netting agreements in the current year	**464.7**	**853.1**	**35,488.9**		**1.6**	**233.9**
of which, determined using a valuation model	*430.0*	*805.6*	*31,152.5*		*1.6*	*233.9*
Total before netting agreements in the previous year	398.9	586.9	26,986.9		1.0	243.9
of which, determined using a valuation model	*376.6*	*569.1*	*25,097.1*		*1.0*	*243.9*
Total after netting agreements in the current year	**174.1**	**562.5**				
Total after netting agreements in the previous year	223.4	294.8				

1 Replacement values

Breakdown by counterparty

CHF MN	CENTRAL CLEARING HOUSES	BANKS AND SECURITIES DEALERS	OTHER CUSTOMERS
Positive replacement values (after netting agreements)	18.9	34.5	120.6

6 Breakdown of financial investments

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Debt securities not intended to be held to maturity	1,612.1	1,950.2	–338.1	–17.3
Market value	*1,614.1*	*1,957.5*	*–343.4*	*–17.5*
Equity securities incl. investment funds	71.2	93.0	–21.8	–23.5
Market value	*82.3*	*104.0*	*–21.7*	*–20.9*
Total financial investments	**1,683.3**	**2,043.3**	**–359.9**	**–17.6**
Market value	**1,696.4**	**2,061.5**	**–365.1**	**–17.7**
of which, securities eligible for repo transactions in accordance with liquidity requirements	*151.4*	*350.7*	*–199.3*	*–56.8*

Breakdown of counterparties by rating[1]

CHF MN	AAA TO AA-	A+ TO A-	BBB+ TO BBB-
Book values of the debt securities	**1,118.2**	**438.6**	**55.4**

1 The bank bases the management and limitation of exposures to professional counterparties on internal assessments by the Credit Research unit as well as on the ratings of external agencies recognized by FINMA. It uses the ratings of Fitch, Moody's, S&P an Fedafin (public sector bodies only). If various ratings exist for a specific position, the relevant rating is assigned according to the rules prescribed by the Basel Committee on Banking Supervision.

7 Breakdown of other assets

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Compensation account	1.6	4.0	–2.4	–60.1
Open settlements	162.1	241.7	–79.6	–32.9
Indirect taxes	32.0	16.8	15.2	90.7
Remaining other assets	32.3	22.7	9.6	42.5
Total other assets	**228.0**	**285.2**	**–57.2**	**–20.0**

8 Breakdown of other liabilities

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.16 CHF MN	IN %
Compensation account		3.0	–3.0	–98.6
Open settlements	276.3	166.1	110.2	66.3
Indirect taxes	10.2	11.1	–0.9	–8.2
Remaining other liabilities	19.8	36.9	–17.1	–46.3
Total other liabilities	**306.3**	**217.2**	**89.1**	**41.0**

9 Pledged or assigned assets to secure own commitments and assets under reservation of ownership, excluding securities financing transactions

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Book value of pledged and assigned assets	673.5	650.8	22.7	3.5
Effective commitment	944.1	1,262.1	–318.0	–25.2

10 Liabilities to own pension schemes[1]

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.16 CHF MN	%
Amounts due in respect of customer deposits	65.3	89.0	–23.7	–26.7
Negative replacement values of derivative financial instruments	0.0	0.1	–0.1	–70.9
Accrued expenses and deferred income		0.1	–0.1	–100.0
Total liabilities to own pension schemes	**65.3**	**89.2**	**–23.9**	**–26.8**

1 The bank’s employee pension funds did not hold any of the bank’s equity instruments in the year under review or in the prior year.

11 Information on pension funds

Employer contribution reserves (ECR)[1]

CHF MN	NOMINAL VALUE 31.12.2017	WAIVER OF USE 31.12.2017	NET AMOUNT 31.12.2017	NET AMOUNT 31.12.2016	INFLUENCE OF ECR ON PERSONNEL EXPENSES 2017	2016
Patronage funds and pension plans						
Pension plans	7.1					
Total	**7.1**					

1 The bank does not recognize the future economic benefit (including employer contribution reserves) as an asset as defined in FINMA Circular 15 / 1.

Economic benefit or economic liability

CHF MN	SURPLUS / (SHORTFALL) 31.12.2017	ECONOMIC BENEFIT OR (ECONOMIC LIABILITY) OF THE BANK 31.12.2017	31.12.2016	CHANGE VERSUS PREVIOUS YEAR	CONTRIBUTIONS PAID CURRENT PERIOD	PENSION COST 2017	2016
Patronage funds and pension plans	36.3						
Pension plans without a surplus / shortfall[1]							–30.9
Pension plans with a surplus	15.5	–0.2		–0.2	–21.4	–21.6	
Total	**51.7**	**–0.2**		**–0.2**	**–21.4**	**–21.6**	**–30.9**

1 In the previous year, a voluntary payment of CHF 12.8 mns was made to increase the funded status.

Bank Vontobel AG has three pension funds that insure the bank's employees and employees of associated companies against the financial consequences of a loss of income as a result of old age, disability or death.

The pension funds provide the mandatory benefits prescribed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) as well as supplementary benefits. The pension funds' assets are managed by Vontobel companies.

12 Presentation of issued structured products[1] related to the underlying risk of the embedded derivative

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Interest rate instruments	3.5		3.5	
Equity securities incl. investment funds	1,219.3	625.5	593.8	94.9
Foreign currencies	111.9		111.9	
Precious metals and commodities	216.0	31.0	185.0	595.9
Other	24.5	63.6	–39.1	–61.5
Total issued structured products	**1,575.3**	**720.2**	**855.1**	**118.7**

1 All issued structured products are recognized in liabilities from other financial instruments at fair value and their own debenture component is disclosed.

13 Value adjustments and provisions and reserves for general banking risks

CHF MN	BOOK VALUE 01.01.17	USING IN CONFORMITY WITH DESIGNATED PURPOSE	PAST DUE INTEREST, RECOVERIES	NEW CREATION CHARGED TO INCOME	RELEASES TO INCOME	BOOK VALUE 31.12.17
Provision for pension benefit obligations				0.2		0.2
Provision for other business risks	32.3	0.7	0.2	7.9	0.2	39.6
Other provisions	101.4					101.4
Total provisions	**133.7**	**0.7**	**0.2**	**8.2**	**0.2**	**141.2**
Value adjustments for default and country risks	**16.7**	**0.6**	**1.9**	**0.6**	**0.0**	**18.7**
of which, value adjustments for default risks in respect of impaired loans / receivables	*16.7*	*0.6*	*1.9*	*0.6*	*0.0*	*18.7*

"Other provisions" consist of collective value adjustments of "Amounts due from customers" and "Mortgage loans" as well as "Contingent liabilities" that are permissible from a tax perspective according to the fact sheet on the taxation of banks and securities traders issued by the Cantonal Tax Office of Zurich on 30 November 2015.

"Provisions for other business risks" mainly comprise litigation provisions. Litigation risks are assessed on an ongoing basis and the relevant provision is adjusted in the course of court proceedings if necessary. The occurrence of a loss depends on the decision of the competent courts.

14 Presentation of the bank's capital

			31.12.2017			31.12.2016
	TOTAL PAR VALUE CHF MN	NUMBER OF SHARES	CAPITAL RANKING FOR DIVIDEND CHF MN	TOTAL PAR VALUE CHF MN	NUMBER OF SHARES	CAPITAL RANKING FOR DIVIDEND CHF MN
Share capital – registered shares	149.0	149,000	149.0	149.0	149,000	149.0
Total share capital	**149.0**	**149,000**	**149.0**	**149.0**	**149,000**	**149.0**
Authorized share capital		none			none	
of which, capital increases completed						
Conditional share capital		none			none	
of which, capital increases completed						

15 Disclosure of holders of significant participations

Disclosure of holders of significant participations in the Bank Vontobel AG, Zurich

		31.12.2017		31.12.2016
	NOMINAL CHF MN	SHARE IN %	NOMINAL CHF MN	SHARE IN %
With voting rights on share capital of Bank Vontobel AG				
Vontobel Holding AG, Zurich	149.0	100.0	149.0	100.0
Total voting rights in share capital ranking for dividends	**149.0**	**100.0**	**149.0**	**100.0**

Disclosure of holders of significant participations in the Vontobel Holding AG, Zurich

		31.12.2017		31.12.2016
	NOMINAL CHF MN	SHARE IN %	NOMINAL CHF MN	SHARE IN %
With voting rights on share capital of CHF 56.875 mns of Vontobel Holding AG				
Advontes AG	5.7	10.0		
Community of heirs Dr Hans Vontobel			11.8	20.7
Vontrust AG (Holding of the Vontobel family shareholders)	8.1	14.3	8.1	14.3
Other shares of family shareholders			4.1	7.2
Vontobel Foundation	8.5	14.9	7.1	12.5
Pellegrinus Holding AG (public utility foundation Corvus)[1]	2.7	4.7	2.7	4.7
Extended Pool	3.9	6.8		
Vontobel Holding AG including subsidiaries (own shares without voting rights)[2]			2.1	3.7
Executive members			0.1	0.1
Total voting rights on share capital	**28.9**	**50.7**	**36.0**	**63.2**
of which, members of the pool (with and without voting rights)	*28.9*	*50.7*	*36.0*	*63.2*
of which, members of the pool (with voting rights)	*28.9*	*50.7*	*33.8*	*59.5*
of which, pooled shares	*28.9*	*50.7*	*26.0*	*45.8*

1 Usufruct incl. voting right by Pellegrinus Holding AG, ownership by Vontobel Foundation
2 31.12.2106: Excl. Option rights amounting to 0.1 % of shares outstanding

16 Number and value of equity securities held by all executives and directors and by employees

	31.12.2017 CHF MN	31.12.2017 NUMBER	31.12.2016 CHF MN	31.12.2016 NUMBER
Members of executive bodies	16.9	457,920	15.6	508,584
Employees	27.8	748,317	24.6	821,523
Total	**44.7**	**1,206,237**	**40.2**	**1,330,107**

Employees of Bank Vontobel AG participate in Vontobel's share participation plan. Contractual terms and conditions and the basis of calculation are described in the consolidated Annual Report of Vontobel, pages 59 to 65 and 81 to 83. The values accrued for performance shares on a pro rata temporis basis are shown in the above table.

17 Disclosure of amounts due from / to related parties

	31.12.2017	31.12.2016	CHANGE TO 31.12.2016	
	CHF MN	CHF MN	CHF MN	IN %
Amounts due from				
Holders of qualified participations	*178.0*	*388.8*	*–210.8*	*–54.2*
Affiliated companies	*659.2*	*318.2*	*341.0*	*107.2*
Members of governing bodies	*2.5*	*1.9*	*0.6*	*30.6*
Other related parties				
Amounts due to				
Holders of qualified participations	*65.7*	*66.1*	*–0.4*	*–0.7*
Affiliated companies	*2,369.7*	*1,757.9*	*611.8*	*34.8*
Members of governing bodies	*19.5*	*17.7*	*1.8*	*9.9*
Other related parties	*65.3*	*59.4*	*5.9*	*9.9*

Due from holders of qualified participations mainly comprises fixed advances to Vontobel Holding AG in the amount of CHF 177.5 mns, which were granted in accordance with market conditions. A large proportion of the due from and to affiliated companies results from the issuing of structured products of the affiliates in Dubai and Frankfurt as well as from intra-Group financing activities. The transactions are conducted in accordance with market conditions. In the case of members of governing bodies and other related parties, the transactions (e.g. securities transactions, lending and income paid on deposits) are conducted according to the conditions that apply to third parties.

18 Own shares and composition of equity capital

Bank Vontobel AG did not hold, sell or purchase its own equity securities during the year under review. Information on the composition of the equity capital and the rights and restrictions associated with shares of capital is provided in Appendix 14 "Presentation of the bank's capital".

Not distributable reserves

	31.12.2017	31.12.2016	CHANGE TO 31.12.2016	
	CHF MN	CHF MN	CHF MN	IN %
Not distributable statutory retained earnings reserves	74.5	74.5		
Total non distributable reserves	**74.5**	**74.5**		

19 Breakdown of total of the net foreign exposure by credit rating of country groups (risk domicile view)

Bank's own country rating[1]

	31.12.2017		31.12.2016	
	ABSOLUTE CHF MN	SHARE IN %	ABSOLUTE CHF MN	SHARE IN %
AAA to AA-	6,227.9	94.4	5,114.5	93.1
A+ to BBB-	182.2	2.8	261.6	4.8
BB+ to D	88.7	1.4	65.3	1.2
Without rating	95.5	1.5	50.6	0.9
Total net foreign exposure	**6,594.4**	**100.0**	**5,491.9**	**100.0**

1 When determining its own country rating, Bank Vontobel AG uses a calculation that is based on the recognized rating agencies Fitch, Moody's and Standard & Poor's.

Notes to the off-balance sheet transactions

20 Breakdown of fiduciary transactions

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Fiduciary investments with third-party companies	1,625.9	1,075.0	550.9	51.2
Total fiduciary transactions	**1,625.9**	**1,075.0**	**550.9**	**51.2**

21 Breakdown and development of managed assets

Breakdown of managed assets[1]

	31.12.2017 CHF BN	31.12.2016 CHF BN	CHANGE TO 31.12.2016 CHF BN	IN %
Assets under discretionary asset management agreements	7.8	6.0	1.7	28.7
Other managed assets	51.3	44.7	6.6	14.9
Total managed assets (including double counting)	**59.1**	**50.7**	**8.4**	**16.5**
of which, double counting				

1 Calculation in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority concerning accounting standards for financial institutions and Vontobel internal guidelines

Presentation of the development of managed assets

	CURRENT YEAR CHF BN	PREVIOUS YEAR CHF BN	CHANGE TO PREVIOUS YEAR CHF BN	IN %
Total managed assets (including double counting) as of 01.01.	**50.7**	**45.3**	**5.4**	**11.9**
Net new money inflow or net money outflow	2.2	2.5	-0.3	-12.0
Price gains / losses, interests, dividends and currency gains / losses	4.5	2.9	1.6	55.9
Other effects	1.6		1.6	
of which, assets from the Notenstein La Roche transaction	*2.1*		*2.1*	
Total managed assets (including double counting) as of 31.12.	**59.1**	**50.7**	**8.4**	**16.6**

Assets under management and net inflows/outflows of new money

Assets under management are calculated and reported in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) concerning accounting standards for financial institutions. Assets under management comprise all of the assets managed or held for investment purposes of private, corporate and institutional clients excluding borrowings, as well as assets in self-managed collective investment instruments. This includes all amounts due to customers on savings and deposit accounts, fixed-term and fiduciary deposits, and all valued assets. Assets under management that are deposited with third parties are included to the extent that they are managed by the Bank. Assets under management only include those assets on which the Bank generates considerably higher income than on assets that are held solely for custody purposes or the execution of transactions. These types of custody assets are reported separately. Assets that are counted more than once, i. e. in several categories of assets under management to be disclosed, are shown under double counts. They primarily include shares in self-managed collective investment instruments in client portfolios.

Net inflows or outflows of assets under management during the reporting period consist of the acquisition of new clients, the departure of clients as well as inflows and outflows of assets from existing clients. This also includes borrowing and the repayment of loans. The calculation of the net inflow or outflow of new money is performed at the level “total assets under management” (excl. double counts). If there is a change in the service provided, resulting in the reclassification of assets under management as assets held for custody purposes or vice versa, this is recorded as an outflow of new money or an inflow of new money, respectively. Securities-related and currency-related changes in market value, interest income and dividends, fee charges, loan interest paid and the impacts of acquisitions and disposals of business divisions of the Bank do not constitute inflows or outflows of assets.

Notes to the income statement

22 Result from trading activities and the fair value option

Result from trading activities and the fair value option by business area

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Securities	59.0	32.9	26.2	79.5
Forex, banknotes and precious metals	22.5	45.0	-22.5	-50.0
Total net income from trading operations	**81.6**	**77.9**	**3.7**	**4.7**

Result from trading activities and the fair value option by underlying risk

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Result from trading activities from:				
Interest rate instruments (including investment funds)	*-72.5*	*-96.3*	*23.8*	*-24.7*
Equity securities (including investment funds)	*75.9*	*119.3*	*-43.4*	*-36.3*
Foreign currencies	*-1.4*	*23.4*	*-24.8*	*-106.0*
Commodities / precious metals	*79.8*	*34.0*	*45.8*	*134.5*
Other	*-0.2*	*-2.6*	*2.3*	*-90.6*
Total result from trading activities	**81.6**	**77.9**	**3.7**	**4.7**
of which, from fair value option on liabilities	*-427.7*	*-56.0*	*-371.7*	*663.7*

23 Breakdown of interest and discount income[1] and interest expense

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Interest income on loans / receivables	48.4	37.2	11.2	30.2
Negative interest on assets	-6.8	-4.8	-2.0	42.1
Total interest and discount income	**41.6**	**32.4**	**9.2**	**28.4**
Interest expense on liabilities	-2.6	-1.6	-0.9	55.2
Negative interest on liabilities	7.1	4.4	2.7	60.9
Total interest expense	**4.6**	**2.8**	**1.8**	**64.2**

1 For the trading business no refinancing income will be credited in the interest income.

24 Breakdown of personnel expenses

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Salaries and bonuses	-271.6	-244.8	-26.8	11.0
of which, expenses relating to share-based compensation	*-30.4*	*-24.7*	*-5.8*	*23.3*
Employee benefits	-22.1	-20.1	-2.0	10.1
Contribution to pension funds[1]	-21.6	-30.9	9.3	-30.1
Other personnel expense	-4.9	-6.2	1.3	-21.1
Total personnel expense	**-320.2**	**-302.0**	**-18.2**	**6.0**

1 In the previous year, a voluntary payment of CHF 12.8 mns was made to increase the funded status.

25 Breakdown of general and administrative expenses

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Office space expenses	-19.9	-22.3	2.4	-10.8
Expenses for information and communications technology	-36.7	-35.7	-1.0	2.8
Expenses for vehicles, equipment, furniture and other fixtures	-0.5	-0.3	-0.2	56.4
Fees of audit firm	-1.3	-1.0	-0.2	20.1
of which, for financial and regulatory audit	*-1.2*	*-1.1*	*-0.1*	*9.5*
of which, for other services	*-0.1*	*0.0*	*-0.1*	*-701.0*
Expenses for travel and representation, public relations, marketing and consulting	-29.5	-20.3	-9.2	45.5
Other operating expenses	-25.1	-25.4	0.2	-0.9
Total general and administrative expenses	**-113.0**	**-105.0**	**-8.0**	**7.6**

26 Significant losses, extraordinary income and expense, significant release of hidden reserves and value adjustments and provisions that are no longer required

In the year under review, there were no significant transactions in the items concerned. In particular, no property and equipment or participations were revalued and no significant impairments were reversed or provisions released.

27 Presentation of taxes

Income and capital taxes

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Current income tax	-0.6	-0.1	-0.5	409.3
Current capital tax	-1.1	-1.1	0.0	-0.8
Total taxes	**-1.7**	**-1.2**	**-0.5**	**38.8**

Average tax rate

IN %	2017	2016
Average tax rate weighted on the basis of the operating result	1.2	n/a[1]

1 Not applicable due to the negative operating result.

Information on capital and liquidity

28 Capital ratios and Leverage ratio

Capital ratios in accordance with FINMA Circular 16/1

	31.12.2017	31.12.2016
Minimum capital requirement based on risk-weighted positions in CHF MN	293.2	271.0
Eligible regulatory capital in CHF MN	698.7	715.6
whereof common equity tier 1 (CET1) in CHF MN	*597.2*	*614.1*
whereof tier 1 capital (T1) in CHF MN	*597.2*	*614.1*
Risk-weighted positions (RWA) in CHF MN	3,665.3	3,388.0
CET1 capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 4.5%)[1]	16.3%	18.1%
Tier 1 capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 6.0%)[2]	16.3%	18.1%
Total capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 8.0%)[3]	19.1%	21.1%
Countercyclical buffer requirement (in % of RWA)	0.0%	0.0%

1 CET1 capital ratio target according to Annex 8 CAO plus countercyclical buffer: 7.8%
2 T1 capital ratio target according to Annex 8 CAO plus countercyclical buffer: 9.6%
3 Total capital ratio target according to Annex 8 CAO plus countercyclical buffer: 12.0%

Leverage ratio in accordance with FINMA Circular 15/3

	31.12.2017	31.12.2016
Net eligible BIS tier 1 capital in CHF MN	597.2	614.1
Total leverage ratio exposure in CHF MN	16,480.7	14,210.3
Leverage ratio (unweighted capital ratio in accordance with Basel III)	3.6%	4.3%

29 Liquidity Coverage Ratio

Liquidity Coverage Ratio in accordance with FINMA Circular 15/2

	4TH QUARTER 2017 AVERAGE	3RD QUARTER 2017 AVERAGE	2ND QUARTER 2017 AVERAGE	1ST QUARTER 2017 AVERAGE
Total stock of high quality liquid assets (HQLA) in CHF MN	3,538.3	3,617.7	3,610.3	3,408.0
Total net cash outflows in CHF MN	3,070.7	3,455.7	3,015.0	2,610.3
Liquidity Coverage Ratio LCR	115.2%	104.7%	119.7%	130.6%

The liquidity coverage ratio is disclosed in accordance with the requirements set out in FINMA Circular 16/01. The values used to calculate the liquidity coverage ratio are simple monthly averages for the relevant quarter or half-year. The average is calculated based on the values shown in the monthly liquidity status reports submitted to FINMA and the SNB. This results in three data points per quarter. For 2017, the liquidity coverage ratio had to exceed 80%.

The main factors influencing Bank Vontobel AG's liquidity coverage ratio are cash holdings as high-quality liquid assets, customer cash accounts as weighted cash outflows, and reverse-repurchase agreements maturing within 30 calendar days as cash inflows.

The corporate bodies of Bank Vontobel AG, Zurich

The Board of Directors

The Board of Directors of Bank Vontobel AG consists of the following persons as of 31 December 2017

NAME	FUNCTION
Herbert J. Scheidt	Chairman
Dr Frank Schnewlin	Deputy Chairman
Bruno Basler	Member
Dr Maja Baumann	Member
Dr Elisabeth Bourqui	Member
David Cole	Member
Nicolas Oltramare	Member
Clara C. Streit	Member
Björn Wettergren	Member

The majority of the members of the Board of Directors of Bank Vontobel AG meet the independence criteria prescribed in the FINMA Circular 17/1 "Corporate governance, risk management and internal control at banks", mn 18–22. They are: Herbert J. Scheidt, Dr Frank Schnewlin, Bruno Basler, Dr Elisabeth Bourqui, David Cole, Nicolas Oltramare and Clara C.Streit. Dr Maja Baumann and Björn Wettergren are members of the Vontobel and de la Cour families. They serve on some governing bodies of entities representing the interests of majority shareholders.

The Executive Board

Executive management comprises the following persons as of 31 December 2017

NAME	FUNCTION
Dr Zeno Staub	CEO
Dr Martin Sieg Castagnola	CFO
Felix Lenhard	Member
Georg Schubiger	Member
Axel Schwarzer	Member
Roger Studer	Member

Report of the statutory auditor

Ernst & Young Ltd
Schanzenstrasse 4A
Postfach
CH-3008 Berne

Phone +41 58 286 62 80
Fax +41 58 286 69 69
www.ey.com/ch

To the General Meeting of Bank Vontobel AG, Zurich

Report of the statutory auditor on the financial statements

Berne, 6 February 2018

As statutory auditor, we have audited the financial statements of Bank Vontobel AG, which comprise the balance sheet, income statement, statement of equity and notes (pages 7 to 26), for the year ended 31 December 2017.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

Patrick Schwaller	Stefan Lutz
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

APPENDIX 6 — THE GUARANTOR'S FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2017

The information in this Appendix 6 has been extracted from the Guarantor's Annual Report 2017 as at and for the year ended 31 December 2017. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 6.

Consolidated income statement

Consolidated income statement

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Interest income		82.9	75.8	7.1	9
Interest expense		14.2	8.1	6.1	75
Net interest income	1	**68.7**	**67.7**	**1.0**	**1**
Fee and commission income		902.5	831.9	70.6	8
Fee and commission expense		209.6	183.2	26.4	14
Net fee and commission income	2	**692.9**	**648.7**	**44.2**	**7**
Trading income	3	**288.8**	**250.0**	**38.8**	**16**
Other income	5, 6	**9.9**	**114.7**	**–104.8**	**–91**
Total operating income		**1,060.3**	**1,081.1**	**–20.8**	**–2**
Personnel expense	7	532.6	484.8	47.8	10
General expense	8	205.0	189.7	15.3	8
Depreciation of property, equipment and intangible assets	9	61.0	62.3	–1.3	–2
Valuation adjustments, provisions and losses	10	2.4	23.0	–20.6	–90
Total operating expense		**801.0**	**759.8**	**41.2**	**5**
Profit before taxes		**259.3**	**321.3**	**–62.0**	**–19**
Taxes	11	50.3	56.9	–6.6	–12
Group net profit		**209.0**	**264.4**	**–55.4**	**–21**
of which allocated to minority interests		*6.6*	*4.6*	*2.0*	*43*
of which allocated to shareholders of Vontobel Holding AG		*202.4*	*259.8*	*–57.4*	*–22*

Share information (CHF)

Basic earnings per share[1]	13	3.65	4.72	–1.07	–23
Diluted earnings per share[1]	13	3.56	4.59	–1.03	–22

1 Basis: weighted average number of shares

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

	NOTE	31.12.2017 CHF MN	31.12.16 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Group net profit according to the income statement		**209.0**	**264.4**	**–55.4**	**–21**
Other comprehensive income, net of tax	12				
Other comprehensive income that will be reclassified to the income statement					
Currency translation adjustments:					
Income during the reporting period		1.6	–6.2	7.8	
Gains and losses transferred to the income statement		0.0	0.0	0.0	
Total currency translation adjustments		1.6	–6.2	7.8	
Financial investments carried at fair value (“available-for-sale”):					
Income during the reporting period		–2.7	–26.1	23.4	
Gains and losses transferred to the income statement		–3.5	–97.0	93.5	
Total financial investments carried at fair value (“available-for-sale”)		–6.2	–123.1	116.9	
Cash flow hedges:					
Income during the reporting period		–0.5	–0.3	–0.2	
Gains and losses transferred to the income statement		0.0	0.0	0	
Total cash flow hedges		–0.5	–0.3	–0.2	
Total other comprehensive income that will be reclassified to the income statement		**–5.1**	**–129.6**	**124.5**	
Other comprehensive income that will not be reclassified to the income statement					
Defined benefit pension plans:					
Total gains / (losses) on defined benefit pension plans		9.6	60.6	–51.0	–84
Total other comprehensive income that will not be reclassified to the income statement		**9.6**	**60.6**	**–51.0**	**–84**
Total other comprehensive income, net of tax		**4.5**	**–69.0**	**73.5**	
Comprehensive income		**213.5**	**195.4**	**18.1**	**9**
of which allocated to minority interests		*7.0*	*2.9*	*4.1*	*141*
of which allocated to shareholders of Vontobel Holding AG		*206.5*	*192.5*	*14.0*	*7*

Consolidated balance sheet

Assets

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Cash		6,287.9	6,374.0	–86.1	–1
Due from banks		1,658.7	1,502.7	156.0	10
Cash collateral for securities borrowing agreements	22	8.5	0.0	8.5	
Cash collateral for reverse-repurchase agreements	22	1,007.2	823.1	184.1	22
Trading portfolio assets	14	3,991.2	2,515.8	1,475.4	59
Positive replacement values	14	243.9	172.3	71.6	42
Other financial assets at fair value	14	3,490.9	2,293.4	1,197.5	52
Loans	15	3,310.5	2,601.9	708.6	27
Financial investments	16	1,788.9	2,111.3	–322.4	–15
Investments in associates	17	0.9	0.6	0.3	50
Property and equipment	19	159.7	153.9	5.8	4
Goodwill and other intangible assets	20	291.1	279.0	12.1	4
Other assets	21	664.3	565.9	98.4	17
Total assets		**22,903.7**	**19,393.9**	**3,509.8**	**18**

Liabilities and equity

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Due to banks		1,221.3	1,139.0	82.3	7
Cash collateral from repurchase agreements	22	0.0	0.0	0.0	
Trading portfolio liabilities	14	158.2	99.7	58.5	59
Negative replacement values	14	725.6	515.4	210.2	41
Other financial liabilities at fair value	14	8,451.3	6,354.8	2,096.5	33
Due to customers		9,758.2	9,058.5	699.7	8
Provisions	26	40.6	33.4	7.2	22
Other liabilities	25	928.0	679.0	249.0	37
Total liabilities		**21,283.2**	**17,879.8**	**3,403.4**	**19**
Share capital	27	56.9	56.9	0.0	0
Treasury shares	27	–79.6	–93.8	14.2	
Capital reserve		–160.3	–157.8	–2.5	
Retained earnings		1,854.7	1,754.5	100.2	6
Other components of shareholders' equity		–51.2	–45.7	–5.5	
Shareholders' equity		**1,620.5**	**1,514.1**	**106.4**	**7**
Minority interests		0.0	0.0	0.0	
Total equity		**1,620.5**	**1,514.1**	**106.4**	**7**
Total liabilities and equity		**22,903.7**	**19,393.9**	**3,509.8**	**18**

Statement of equity

Statement of equity

CHF MN	SHARE CAPITAL	TREASURY SHARES	CAPITAL RESERVE
Balance as of 01.01.2016	**56.9**	**–94.6**	**–156.1**
Group net profit			
Income recognized in other comprehensive income during the period under review			
Gains and losses transferred to the income statement			
Other comprehensive income from defined benefit pension plans			
Total other comprehensive income, net of tax	**0.0**	**0.0**	**0.0**
Comprehensive income	**0.0**	**0.0**	**0.0**
Dividend payment[2]			
Purchase of treasury shares		–60.9	
Sale of treasury shares		14.9	–0.4
Share-based compensation expense			22.3
Allocations from share-based compensation		46.8	–27.0
Change in minority interests			0.0
Change in liability to purchase minority interests			3.4
Other effects	0.0	0.0	0.0
Total ownership-related changes	**0.0**	**0.8**	**–1.7**
Balance as of 31.12.2016	**56.9**	**–93.8**	**–157.8**
Balance as of 01.01.2017	**56.9**	**–93.8**	**–157.8**
Group net profit			
Income recognized in other comprehensive income during the period under review			
Gains and losses transferred to the income statement			
Other comprehensive income from defined benefit pension plans			
Total other comprehensive income, net of tax	**0.0**	**0.0**	**0.0**
Comprehensive income	**0.0**	**0.0**	**0.0**
Dividend payment[2]			
Purchase of treasury shares		–58.6	
Sale of treasury shares		13.6	1.1
Share-based compensation expense			36.6
Allocations from share-based compensation		59.2	–34.2
Change in minority interests			0.0
Change in liability to purchase minority interests			–6.0
Other effects	0.0	0.0	0.0
Total ownership-related changes	**0.0**	**14.2**	**–2.5**
Balance as of 31.12.2017	**56.9**	**–79.6**	**–160.3**

1 “Net unrealized gains / (losses) on available-for-sale financial investments”, “Currency translation adjustments” and “Cash flow hedges” are reported in the balance sheet item “Other components of shareholders’ equity”.
2 Vontobel Holding AG paid a dividend (gross) of CHF 2.00 per registered share with a par value of CHF 1.00 in April 2017, consisting of an ordinary dividend of CHF 1.90 (previous year CHF 1.85) and a special dividend of CHF 0.10.

RETAINED EARNINGS	NET UNREALIZED GAINS/(LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS[1]	CURRENCY TRANSLATION ADJUSTMENTS[1]	CASH FLOW HEDGES[1]	SHAREHOLDERS' EQUITY	MINORITY INTERESTS	TOTAL EQUITY
1,536.8	**127.7**	**–45.1**	**–0.4**	**1,425.2**	**0.0**	**1,425.2**
259.8				**259.8**	**4.6**	**264.4**
	–26.1	–4.5	–0.3	–30.9	–1.7	–32.6
	–97.0	0.0	0.0	–97.0	0.0	–97.0
60.6				60.6	0.0	60.6
60.6	**–123.1**	**–4.5**	**–0.3**	**–67.3**	**–1.7**	**–69.0**
320.4	**–123.1**	**–4.5**	**–0.3**	**192.5**	**2.9**	**195.4**
–102.7				–102.7	–5.2	–107.9
				–60.9	0.0	–60.9
				14.5	0.0	14.5
				22.3	0.0	22.3
				19.8	0.0	19.8
	0.0	0.0		0.0	0.0	0.0
				3.4	2.3	5.7
0.0	0.0			0.0	0.0	0.0
–102.7	**0.0**	**0.0**	**0.0**	**–103.6**	**–2.9**	**–106.5**
1,754.5	**4.6**	**–49.6**	**–0.7**	**1,514.1**	**0.0**	**1,514.1**
1,754.5	**4.6**	**–49.6**	**–0.7**	**1,514.1**	**0.0**	**1,514.1**
202.4				**202.4**	**6.6**	**209.0**
	–2.7	1.2	–0.5	–2.0	0.4	–1.6
	–3.5	0.0	0.0	–3.5	0.0	–3.5
9.6				9.6	0.0	9.6
9.6	**–6.2**	**1.2**	**–0.5**	**4.1**	**0.4**	**4.5**
212.0	**–6.2**	**1.2**	**–0.5**	**206.5**	**7.0**	**213.5**
–111.8				–111.8	–7.8	–119.6
				–58.6	0.0	–58.6
				14.7	0.0	14.7
0.0				36.6	0.0	36.6
				25.0	0.0	25.0
	0.0	0.0		0.0	0.0	0.0
				–6.0	0.8	–5.2
0.0	0.0			0.0	0.0	0.0
–111.8	**0.0**	**0.0**	**0.0**	**–100.1**	**–7.0**	**–107.1**
1,854.7	**–1.6**	**–48.4**	**–1.2**	**1,620.5**	**0.0**	**1,620.5**

Consolidated cash flow statement

Consolidated cash flow statement

CHF MN	31.12.2017	31.12.2016
Cash flow from operating activities		
Group net profit (incl. minorities)	209.0	264.4
Reconciliation to net cash flow from operating activities		
Non-cash positions in Group results:		
Depreciation of property, equipment and intangible assets	61.0	62.3
Credit loss expense	0.0	0.0
Income from investments in associates	–0.3	–0.1
Deferred income taxes	7.0	2.3
Change in provisions	5.6	14.9
Net income from investing activities	2.6	–98.4
Net income from disposal of property, equipment and intangible assets	0.0	0.1
Other non-cash income	40.5	2.5
Net (increase)/decrease in assets relating to banking activities:		
Due from/to banks, net	173.0	744.0
Reverse-repurchase agreements, cash collateral for securities borrowing agreements	–192.6	190.4
Trading positions and replacement values, net	–1,268.8	–424.4
Other financial assets/liabilities at fair value, net	899.0	1,200.0
Loans/due to customers, net	–581.2	45.9
Other assets	–90.2	–184.2
Net increase/(decrease) in liabilities relating to banking activities:		
Repurchase agreements, cash collateral from securities lending agreements	0.0	–76.1
Other liabilities	282.0	–95.6
Taxes paid	–47.9	–55.2
Cash flow from operating activities	**–501.3**	**1,592.8**
Cash flow from investing activities		
Investments in subsidiaries and associates	543.6	–16.4
Disposal of subsidiaries and associates	0.0	2.9
Settlement of earn-out payments	3.7	–4.5
Purchase of property, equipment and intangible assets	–57.7	–42.1
Disposal of property, equipment and intangible assets	0.0	0.0
Investment in financial instruments	–515.7	–596.4
Divestment of financial instruments	813.8	723.8
Cash flow from investing activities	**787.7**	**67.3**
Cash flow from financing activities		
Net movements in treasury shares	–43.9	–46.4
Dividends paid	–119.6	–107.9
Cash flow from financing activities	**–163.5**	**–154.3**
Effects of exchange rate differences	8.9	–2.4
Net increase/(decrease) in cash and cash equivalents	**131.8**	**1,503.4**
Cash and cash equivalents, beginning of the year	7,787.1	6,283.7
Cash and cash equivalents as at the balance sheet date	**7,918.9**	**7,787.1**

CHF MN	31.12.2017	31.12.2016
Cash and cash equivalents comprise at year end		
Cash	6,287.9	6,374.0
Due from banks on demand	1,631.0	1,413.1
Total	**7,918.9**	**7,787.1**
Further information:		
Dividends received	53.7	52.8
Interest received	141.9	128.8
Interest paid	15.9	11.1

Accounting principles

1. Basis of presentation

Vontobel's consolidated financial statements comprise the accounts of Vontobel Holding AG and its subsidiaries. They have been prepared in accordance with the International Financial Reporting Standards (IFRS), which are published by the International Accounting Standards Board (IASB). The accounting principles applied are the same as in the consolidated financial statements dated 31 December 2016, the only exceptions being the changes referred in section 4.

2. Estimates, assumptions and judgement by management

In the application of accounting principles, management is required to make numerous estimates and assumptions that influence the level of reported assets and liabilities and expenses and income, as well as the disclosure of contingent assets and contingent liabilities. Vontobel is convinced that – in all material respects – these consolidated financial statements provide a true and fair view of its financial position, its results of operations and its cash flows. Management reviews its estimates and assumptions on a continual basis and adapts them in line with new findings and conditions.

Estimates and assumptions are mainly contained in the following areas of the consolidated financial statements and are discussed in the corresponding notes to the consolidated financial statements: fair value of financial instruments, share-based payment, provisions, income taxes, pension plans, and goodwill and other intangible assets.

With the exception of the above-mentioned estimates and assumptions, judgement by management did not have a significant influence on the application of accounting principles in the year under review or the previous year.

3. Summary of the most important accounting principles

3.1 Consolidation principles

Subsidiaries

All subsidiaries directly or indirectly controlled by Vontobel Holding AG are consolidated in the consolidated financial statements. Vontobel exercises control over another company if all three of the following requirements are met: Vontobel has decision-making power over the other company, is exposed to variable returns from its involvement with the other company and has the ability to use its power over that company to affect the amount of its returns.

Acquired subsidiaries are consolidated from the date on which control is transferred to Vontobel. Changes to investments in subsidiaries are recorded as transactions in shareholders' equity provided Vontobel retains control of the subsidiary. Subsidiaries that are sold are consolidated until the date on which control is lost. If Vontobel loses control of a subsidiary, any investment that is retained in the former subsidiary is recognized as an interest in an associate or as a financial instrument in accordance with IAS 39.

The acquisition of a subsidiary is accounted for using the purchase method. The acquisition costs are measured at the fair value of the consideration at the acquisition date. Previously held equity interests in the acquiree that are treated as financial instruments in accordance with IAS 39 or as an associated company are measured at fair value at the acquisition date and any gain or loss is recorded in the income statement. The identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at fair value at the acquisition date. A minority interest in the acquiree is measured either at fair value or at its proportionate interest in the fair value of the net assets acquired; either method can be chosen on a transaction-by-transaction basis. If the aggregate of the fair value of the consideration, the fair value of the previously held equity interests and the minority interests measured according to the chosen method, as detailed above, exceeds the fair value of the net assets acquired, the difference between the two amounts is recorded as goodwill. If the opposite applies, the difference is immediately recorded in the income statement. The costs directly attributable to the acquisition (e.g. consulting and audit costs) are charged to the income statement.

Vontobel's investment funds are classed as structured entities according to IFRS 12. They are consolidated if Vontobel – as principal – acts primarily in its own interests. If Vontobel – as an agent – acts primarily in the interests of investors, the investment funds are not consolidated. Shares of non-consolidated investment funds are treated as financial instruments, as defined in section 3.3.

The effects of intra-Group transactions are eliminated in the consolidated financial statements. Shareholders' equity, net profit and comprehensive income attributable to minority interests are reported separately in the consolidated balance sheet and statement of comprehensive income.

If Vontobel has an obligation to acquire minority interests, a liability corresponding to the estimated acquisition price is recognized as a charge against minority interests and (if the liability exceeds the minority interests) as a charge against capital reserves. In principle, changes in the liability are recognized in shareholders' equity. Any compensation component is reflected in the income statement. A share of profits or losses continues to be allocated to minority interests in the income statement and the statement of comprehensive income.

Associates
Companies over which Vontobel can exert significant influence are accounted for using the equity method. As a rule, influence is deemed significant when Vontobel holds 20% to 50% of voting rights.

According to the equity method of accounting, the interest acquired in a company is stated at cost in the balance sheet upon acquisition. After the acquisition, the book value of the associated company is increased or reduced, depending on Vontobel's share of the comprehensive income and the ownership-related changes in the shareholders' equity of the associated company.

3.2 General principles
Foreign currency translation
Vontobel companies prepare their financial statements in the respective functional currency. Transactions in a currency other than the functional currency are recorded by the companies at the exchange rate on the date of the transaction. Exchange differences arising between the date of a transaction and its subsequent settlement are recognized in the income statement. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency using the closing exchange rates, unrealized exchange differences are recognized in the income statement. Non-monetary items carried at historical cost in a foreign currency are translated into the functional currency at the historical exchange rate. Non-monetary items carried at fair value in a foreign currency are translated into the functional currency at the closing exchange rates. Any unrealized gains and losses resulting from the foreign currency translation are recorded in the income statement in the case of trading portfolio assets and other financial instruments at fair value and in other comprehensive income in the case of available-for-sale financial assets.

When drawing up the consolidated financial statements, the balance sheets of Vontobel companies that are denominated in a foreign currency are translated into Swiss francs at the closing exchange rates. Average exchange rates for the period under review are used for items of the income statement, other comprehensive income and cash flows. Currency translation adjustments that result from changes in exchange rates between the beginning and the end of the year, as well as the difference between the annual profit at average rates and at year-end rates, are recognized in other comprehensive income. If a realization event occurs (e.g. if control over a Group company is lost), the relevant currency translation adjustments are transferred from other comprehensive income to the income statement. For information on hedges of net investments in foreign operations, please refer to note 35 "Hedge accounting".

Segment reporting
Please refer to note 47 for information on the segments.

Cash and cash equivalents
Cash and cash equivalents in the cash flow statement include cash (petty cash, giro or demand deposits at the Swiss National Bank and foreign central banks, and clearing credit balances at recognized clearing centres and clearing banks), as well as receivables due from banks on demand.

Accrual of earnings
Income from services rendered over a specific period of time is recorded on a pro rata basis for the duration of the service. This includes asset management fees and custody fees. Profit-based income and performance-based income are not recorded until all of the relevant criteria have been met. This type of income may, for example, be generated in corporate finance and in the fund business. Interest income is accrued as earned. Dividends are recognized when payment is received.

3.3 Financial instruments
Initial recognition
Purchases and disposals of financial assets are recognized in the balance sheet on the trade date. At the time of initial recognition, financial assets or financial liabilities are classified in the respective category according to IAS 39 criteria and measured at the fair value of the consideration given or received, including directly attributable transaction costs. In the case of trading portfolio assets and other financial instruments at fair value ("Fair value through profit and loss"), the transaction costs are immediately recognized in the income statement.

Determining fair value and recognition of "Day 1 Profit"
Please refer to note 32 "Fair value of financial instruments" for information on the determination of the fair value of financial instruments, the fair value hierarchy, the valuation methods and the day 1 profit.

Trading portfolio assets and liabilities and other financial instruments at fair value ("fair value through profit and loss")
Financial assets or financial liabilities held for trading purposes are measured at fair value in "Trading portfolio assets" or "Trading portfolio liabilities". Gains and losses on the sale and redemption of such instruments, interest and dividend income as well as all changes in fair value are recognized in "Trading income".

Provided the criteria defined by IAS 39 have been met, a financial instrument can be assigned to the category "Other financial instruments at fair value" upon initial recognition and carried in the balance sheet as "Other financial assets at fair value" or "Other financial liabilities at fair value". The corresponding accounting treatment in the income statement is analogous to the treatment of trading portfolio assets and liabilities.

Issued structured products and certificates are shown in the item “Other financial liabilities at fair value”. Interest rate instruments used for the purpose of reinvesting the issue proceeds and hedging the interest rate risks of issued structured products are shown in the item “Other financial assets at fair value”. In addition, certain designated portfolios of equity instruments and shares in funds outside the trading business are also reported in the item “Other financial assets at fair value”.

Based on a documented strategy, the management, valuation and reporting to the senior management of both issued products and designated interest rate instruments from the issuing business as well as of equity instruments and shares in funds outside the trading business is performed on a fair value basis.

Available-for-sale financial assets

Financial assets that are available for sale are stated at fair value. Unrealized gains and losses are recognized in other comprehensive income until the financial assets are sold or determined to be impaired. Foreign currency translation gains and losses are recorded as trading income in the case of monetary items such as debt instruments and are recorded as a component of the change in fair value in other comprehensive income in the case of non-monetary items such as equities.

In the test that is carried out on a half-yearly basis, equities and similar securities and rights are classed as impaired if the acquisition costs may not be recovered due to a significant or prolonged decline in fair value. In the case of listed instruments, this basically applies if, on the balance sheet date, they have been listed at below the acquisition price for at least six months or if the price at which they are listed is at least 20% lower than the acquisition price. In the case of unlisted instruments, other appropriate information is consulted for the purpose of the impairment test (e.g. current financial information if Vontobel has access to this data as a result of its participation, or annual reports).

Interest rate instruments comprise liquid instruments issued by high-quality borrowers with certain minimum ratings from external rating agencies. The creditworthiness of the borrowers is monitored continuously based on changes in external ratings, market factors as well as internal assessments. If an interest rate instrument no longer meets the internal rules governing creditworthiness, it is generally sold within a very short period of time. In exceptional cases where a position of this nature has not yet been entirely disposed of by the next balance sheet date (30 June or 31 December), checks are carried out to determine whether there is objective evidence of impairment. Since Vontobel’s available-for-sale interest rate instruments are highly liquid, market price is a reliable indicator of the financial position of a borrower. In the event of a significant decrease in market price due to company-specific factors, the interest rate instrument is classed as impaired.

If an available-for-sale asset is determined to be impaired, the cumulative unrealized loss previously recognized in other comprehensive income is transferred to the item “Other income” in the income statement. Impairment reversals on interest rate instruments are recognized in “Other income”, and impairment reversals on equities are recognized in other comprehensive income. This also applies if an impairment recorded in the first half of the year is partly or completely offset by a reversal of impairment in the second half of the year. On the disposal of a financial asset that is available for sale, the cumulative unrealized gain or loss previously recognized in other comprehensive income is transferred to the item “Other income” in the income statement. Gains or losses from partial disposals are calculated using the average cost method.

Interest is accrued in the period in which it is earned using the effective interest method and recognized together with dividend income in the item “Net interest income”.

Loans granted

Loans are reported in the balance sheet at amortized cost using the effective interest method less any specific allowances for credit risks. Based on the size and structure of the credit portfolio, as well as Vontobel’s policy of essentially only granting credit on a secured basis or to counterparties with very high creditworthiness, no general allowances are made for credit risks.

The secured loans provided to investment clients (“lombard lending”) are backed by securities that serve as easily realizable collateral. With the exception of issuer risks relating to the bond portfolio, exposures to professional counterparties are, in principle, only entered into on a secured basis. The daily procedures to ensure that adequate collateral is in place are described in sections 5.2 and 5.3 of the notes on risk management and risk control. Section 5.3 also contains information on the methods and processes used to carefully manage counterparty risks resulting from unsecured exposures.

The management and control of counterparty risks minimizes the probability that a valuation adjustment will have to be recorded on a loan as at the balance sheet date (30 June or 31 December). In exceptional cases where it is likely that the amount due according to the contractual terms cannot be collected in full, an individual valuation adjustment will be recorded based on the following procedure:

- The available collateral is valued at the liquidation value, taking account of the price effect in the case of liquidation and also deducting any reductions in value, holding costs and liquidation costs.
- If part of the loan is no longer secured against collateral, i.e. if the total loan exceeds the liquidation value of the collateral, Vontobel assesses the creditworthiness of the borrower. If it concludes that there are objective signs of impairment, a valuation adjustment is recorded for the relevant loan. The impairment is recorded under “Valuation adjustments, provisions and losses”.

Interest income on loans that are not overdue is accrued in the period in which it is earned and recorded in “Net interest income”. Increases in or reversals of impairment losses are recognized in "Valuation adjustments, provisions and losses". As a rule, they are derecognized at the point in which a legal title confirms the conclusion of the liquidation process.

Securities lending and borrowing transactions
The transfer of securities in the context of securities lending and borrowing transactions (due to the actual lending or borrowing transaction or as collateral) is not recorded in the balance sheet since the risks and rewards of ownership of the securities are not transferred. In securities lending transactions, cash collateral received is recorded in the balance sheet as "Cash collateral from securities lending agreements". In securities borrowing transactions, cash collateral provided is recorded in the balance sheet as "Cash collateral for securities borrowing agreements".

Fees and interest from securities lending and borrowing are accrued in interest income or interest expense in the period in which they are incurred.

Repurchase and reverse-repurchase agreements
Repurchase and reverse-repurchase agreements are treated as secured financing agreements. The transfer of securities in the case of repurchase and reverse-repurchase agreements is not recorded in the balance sheet since the risks and rewards of ownership of the securities are not transferred.

In reverse-repurchase agreements, cash collateral provided is stated in the balance sheet as "Cash collateral for reverse-repurchase agreements". In repurchase agreements, the cash collateral received is stated in the balance sheet as "Cash collateral from repurchase agreements".

Interest income from reverse-repurchase agreements and interest expense from repurchase agreements are accrued in the period in which they are incurred.

Negative interest rates
Negative interest on assets and liabilities is accrued in the period in which it is incurred and is shown in the income statement as interest expense or interest income.

Derivative financial instruments
Derivative instruments are stated at fair value and presented as positive and negative replacement values. Provided no hedge accounting is applied for the relevant derivatives, realized and unrealized gains and losses are shown in "Trading income".

Information on hedge accounting is provided in note 35.

3.4 Other basic principles

Precious metals and cryptocurrencies
In connection with its trading and issuing business, Vontobel holds commodities positions – especially in precious metals and cryptocurrencies. They are used primarily to hedge risks arising from the structured products issued. They are measured at fair value less selling costs and are recorded in the balance sheet item "Trading portfolio assets". Gains and losses are recognized in "Trading income". In the notes to the consolidated financial statements these items are disclosed together with the financial instruments held for trading purposes.

Own shares and derivatives on own shares
Vontobel Holding AG shares held by Vontobel are deducted from shareholders' equity in the item "Treasury shares" at weighted average cost. Changes in fair value are not recorded. When own shares are sold, the proceeds are recorded in "Capital reserve" and the corresponding acquisition cost is transferred from the balance sheet position "Treasury shares" to "Capital reserve".

Derivatives on own shares that must be physically settled qualify as equity instruments and are stated in shareholders' equity under "Capital reserve". Changes in fair value are not recognized. The settlement of a contract is treated like a purchase or sale of own shares.

Derivatives on own shares that must be settled in cash or that offer a choice of settlement method are treated as derivative financial instruments.

An exception are put options written on own shares and forward contracts to purchase own shares in which physical settlement has been agreed on or offered as an alternative. In both cases, the discounted strike price or forward price upon execution of the contract is deducted from shareholders' equity as a liability. This liability is increased during the contract term up to the strike price or forward price using the effective interest rate method. Upon settlement of a contract, the liability is either derecognized or transferred to shareholders' equity.

Share-based payment
Please refer to note 29 for information on share-based compensation.

Property and equipment
Property and equipment include bank buildings, leasehold improvements, information technology and telecommunications equipment, software (IT core systems and other software, incl. software in development) and other fixed assets. The acquisition or production costs of property and equipment are capitalized if Vontobel is likely to obtain future economic benefits from them and the costs can be both identified and reliably determined. Property and equipment are depreciated on a straight-line basis over their estimated useful life as follows:

Property and equipment

IN YEARS	
Bank buildings	max. 40
Leasehold improvements	max. 10
Information technology and telecommunications equipment	3
IT core systems	max. 10
Other software	3–5
Other fixed assets	2–5

Property and equipment are reviewed for impairment if events or circumstances indicate that the carrying amount may be impaired. If the carrying amount exceeds the recoverable amount, an impairment loss is recorded. Any reversals of impairments at a later date will be recognized in the income statement.

Goodwill and other intangible assets
Please refer to note 20 for information on goodwill and related impairment testing.

Other intangible assets comprise client relationships and brands acquired in the course of business combinations, as well as the cooperation agreement with Raiffeisen. They are depreciated on a straight-line basis over the useful life of five to ten years. The other intangible assets are tested for impairment if events or circumstances indicate that the book value may be impaired. If the book value exceeds the recoverable amount, an impairment loss is recorded. Any reversals of impairments at a later date will be recognized in the income statement. No other intangible assets with an indefinite useful life are capitalized in Vontobel's balance sheet.

Leasing
In the case of operating leasing, the leased assets are not reported in Vontobel's balance sheet since the related ownership rights and obligations remain with the lessor. The expenses resulting from operating leasing are recorded in the position "General expense". Vontobel does not have any significant finance leasing agreements.

Income taxes
Current income taxes are calculated on the basis of the applicable tax laws in individual countries and recognized as an expense in the period in which the related profits are made. Assets or liabilities from current income taxes are shown in the balance sheet items "Other assets" or "Other liabilities", respectively.

Deferred tax assets or deferred tax liabilities correspond to the tax effects arising from temporary differences between the carrying amounts of assets and liabilities in Vontobel's balance sheet and their corresponding tax values. They are included in the balance sheet items "Other assets" or "Other liabilities", respectively. Deferred tax assets arising from temporary differences and from loss carryforwards eligible for offset are capitalized if it is likely that sufficient taxable profits will be available against which those temporary differences or loss carry-forwards can be offset. Deferred tax assets and deferred tax liabilities are calculated at the tax rates expected to apply in the period in which the tax assets will be realized, or the tax liabilities settled.

Current and deferred taxes are credited or charged to other comprehensive income or shareholders' equity if the taxes refer to items that are credited or charged to other comprehensive income or to shareholders' equity in the same or a different period.

Pension plans
Please refer to note 41 for information on pension plans.

Provisions
A provision is recognized if Vontobel has, as a result of a past event, a current liability at the balance sheet date that will probably lead to an outflow of funds, the level of which can be reliably estimated. The recognition and release of provisions are recorded in the item "Valuation adjustments, provisions and losses". If an outflow of funds is unlikely to occur or the amount of the liability cannot be reliably estimated, a contingent liability is shown. If there is, as a result of a past event, a possible liability as of the balance sheet date whose existence depends on future developments that are not fully under Vontobel's control, a contingent liability is likewise shown.

Disposal groups
Please refer to note 40 for information on disposal groups

4. Changes in financial reporting

4.1 Changes in accounting principles
4.1.1 Standards and interpretations that have been implemented
The following new or revised standards and interpretations did not have any significant impacts on Vontobel when applied for the first time or were not relevant for Vontobel:
– IAS 7 – Disclosure Initiative;
– IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
– Annual Improvements 2014–2016 (with first-time application from 1 January 2017).

4.1.2 Other changes
None.

4.2 Changes in estimates
No material changes in estimates.

5. Standards and interpretations that have not yet been implemented

Various new and revised standards and interpretations have to be applied with effect from 1 January 2018 or a later date. Vontobel has not made use of the option of applying the following standards and interpretations prior to the effective dates.

IFRS 9 – Financial Instruments
The IASB published IFRS 9 in July 2014. The new standard replaces IAS 39 and contains guidelines on the classification and measurement of financial assets and liabilities, the identification of impairment of financial assets, and hedge accounting. It is to be applied for the first time from 1 January 2018. In October 2017, the IASB published an amendment to IFRS 9 regarding prepayment features with negative compensation, which is to be applied for the first time from 1 January 2019. Earlier application is permitted.

The classification and measurement of financial assets is based on the contractual cash flows from financial assets

and on the business model in which they are held. In the case of debt instruments, the following categories exist:
- Recognition in the balance sheet at amortized cost using the effective interest method;
- Recognition in the balance sheet at fair value, with changes in fair value being recognized in other comprehensive income and transferred to the income statement if the instrument is sold;
- Recognition in the balance sheet at fair value, with changes in fair value being recognized in the income statement.

In the event of an accounting mismatch, the fair value option can be applied to a debt instrument that would fall within one of the first two categories.

All equity instruments are measured at fair value. This also applies to unquoted equity instruments that were usually recognized at cost less impairment under IAS 39. Changes in their fair value are recorded in the income statement. If an equity instrument is not held for trading purposes, it can be irrevocably classified as an instrument that is measured at fair value the first time it is recorded in the balance sheet. However, with the exception of dividends, all of its income components are recorded in other comprehensive income and are not transferred to profit and loss under any circumstances.

IFRS 9 incorporates the rules on the classification and measurement of financial liabilities set out in IAS 39. A new feature in IFRS 9 is that the impact of the change in own credit risk from financial liabilities, for which the fair value option is applied, is now recorded in other comprehensive income. However, if this treatment would create or enlarge an accounting mismatch in the income statement, the impact of the change in own credit risk should continue to be recorded in the income statement according to the method used in IAS 39.

It is primarily financial assets measured at amortized cost or financial assets where changes in fair value are recognized in other comprehensive income that fall within the scope of the new impairment model. Upon initial recognition of these instruments, the present value of expected credit losses resulting from possible default events within the next 12 months are recognized through profit or loss. If there has been a significant increase in the risk of default since the initial recognition of the instrument, the present value of all expected credit losses over the remaining life of the instrument are recorded through profit or loss.

The new general hedge accounting model enables companies to better reflect their risk management activities in their financial statements by providing more opportunities to apply hedge accounting and by allowing flexibility in how an economic relationship between the hedged item and the hedging instrument is demonstrated.

Vontobel will apply IFRS 9 from 1 January 2018 (including the amendment relating to prepayment features with negative compensation). Based on a detailed analysis, it is expected to have the following significant impacts:
- The measurement of unquoted equity instruments at fair value under IFRS 9 (instead of at cost less impairment under IAS 39) results in an increase in consolidated shareholders' equity of around 3% as of 1 January 2018 that is not recognized in profit or loss.
- The introduction of the new impairment model results in a decrease in consolidated shareholders' equity of around 0.1% as of 1 January 2018 that is not recognized in profit or loss. This is an impact (after taxes) from the recognition of expected credit losses for financial instruments in stages 1 and 2 of the impairment model.
- Vontobel will continue to recognize the impact of the change in own credit risk in the income statement due to the existence of an accounting mismatch.

IFRS 15 – Revenue from Contracts with Customers
The new standard provides a five-step model for the recognition of revenue that should, in principle, be applied to all customer contracts. The model comprises the following steps:
- Identify the contract with the customer;
- Identify distinct performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract;
- Recognize revenue when the performance obligations are satisfied.

IFRS 15 contains new guidelines on whether revenue should be recognized at a certain point in time or over time. For cases involving variable consideration, a new recognition threshold was introduced. Under this reporting standard, variable amounts are only included in revenue if it is highly probable that a significant revenue reversal will not occur in the future as a result of re-estimation.

The new standard provides detailed guidance on various issues, such as identifying distinct performance obligations and accounting for contract modifications. The standard also introduces new guidance on the costs of fulfilling and obtaining a contract, as well as specifying the circumstances in which such costs should be capitalized. The new standard includes significantly increased requirements for the disclosure of revenue in the financial statements.

IFRS 15 has to be applied from 1 January 2018. Based on a detailed analysis, Vontobel does not expect any impacts on the balance sheet and the consolidated income statement.

IFRS 16 – Leases
In January 2016, the IASB published the new standard for the financial reporting of leases. The new standard introduces a new lessee accounting model that eliminates the classification of leases as either finance leases or operating leases. For all leases, the lessee recognizes a leasing liability for its obligation to make future lease payments. At the same time, the lessee capitalizes the right to use the underlying asset, which basically corresponds to the present value of future lease payments

plus directly attributable costs. Exemptions apply in the case of short-term leases and low-value lease assets.

IFRS 16 replaces IAS 17 and the related interpretations and is to be applied for the first time to financial years beginning on or after 1 January 2019. Based on current analysis, Vontobel does not expect the new provisions to have any significant overall impacts with the exception of the recognition of leasing liabilities and rights of use.

IFRIC 23 – Uncertainty over Income Tax Treatments
The interpretation is to be applied primarily to the determination of taxable profits (or tax losses), tax bases, unused loss carryforwards and tax rates, when there is uncertainty over income tax treatments. The company has to use judgment to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together.

The company has to assume that the tax authority will examine any amounts reported to it and will have full knowledge of all relevant information when doing so. A company has to consider whether it is probable that the relevant tax authority will accept each tax treatment. If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profits (or tax losses), tax bases, unused loss carryforwards and tax rates.

IFRIC 23 is to be applied from 1 January 2019. Vontobel is currently analyzing the impacts of the new provisions.

Other new standards and interpretations
Based on initial analyses, the following new and revised standards and interpretations are not expected to have any significant impact on Vontobel's net profit, comprehensive income and shareholders' equity or are not expected to be relevant to Vontobel:
- IAS 28 – Long-term Interests in Associates and Joint Ventures;
- IAS 40 – Transfers of Investment Properties;
- IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- IFRS 4 – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"
- IFRS 17 – Insurance Contracts
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
- Annual Improvements 2014–2016 (with first-time application from 1 January 2018);
- Annual Improvements 2015–2017.

Risk management and risk control

1. Risk policy

A conscious and prudent approach to risk is a prerequisite for the sustained, long-term success of Vontobel as an internationally oriented Swiss banking group specializing in wealth and asset management and investment banking. The assumption of risk is an inherent part of the activities of the three divisions Wealth Management, Asset Management and Investment Banking. The Group-wide risk culture, which is firmly established at every level of the company and is reviewed on an ongoing basis, ensures that risks are recognized and that appropriate control and mitigation mechanisms are implemented and refined.

In its risk policy, Vontobel defines the relevant risk categories and the corresponding risk profiles, as well as the powers of authorization, organizational structure, methods and processes relating to the management and control of risks. The appropriateness of the risk policy is reviewed at least once annually by the Board of Directors.

The Board of Directors evaluates and monitors the Group's Internal Control System using a systematically developed risk analysis model discussed with the Executive Board.

The Risk Management and Risk Control units ensure that all risks are managed and monitored with the utmost care.

The most important principles regarding risk management and control are:
- Clearly delegated responsibilities and authority
- Alignment of risk profile and risk capacity
- Independent control functions and adequate human and technical resources
- Adequate internal control systems
- Transparency regarding the risks taken

Clear responsibilities and powers of authorization
Organizational aspects and powers of authorization relating to the management and control of all risks have been defined as follows:
- The Board of Directors has the ultimate responsibility for risk issues.
- The Executive Board is responsible for the operational implementation of the risk policy and for the management and control of all risks.
- The heads of the divisions are responsible for managing risks in accordance with the relevant qualitative and quantitative guidelines.
- The Risk Control unit is responsible for risk control.

Alignment of risk profile and risk capacity
Comprehensive, combined Group-wide stress tests are conducted on a regular basis. In addition to market and credit risks (i.e. position risks), these tests assess operational risks as well as risks relating to income and costs. The results of the stress tests are compared with Vontobel's risk capacity to ensure that its risk profile does not exceed the available risk capacity and that any adjustments are made promptly.

Independent control functions as well as adequate human and technical resources
The Risk Control unit reports directly to the Chief Financial Officer (CFO), who works independently from the business divisions and is a member of the Executive Board.

Risk Control is organized into various teams, which are responsible for the subsequent independent monitoring of market risks, credit and counterparty risks and operational risks in general, as well as the risks that result when client assets are not invested in accordance with internal or external regulations (investment control) in particular.

In terms of operational risks in particular, an important role is also played by the Legal, Compliance & Tax unit, which reports to the Head of the Operations division who also works independently from the divisions and is a member of the Executive Board.

The Risk Control unit is primarily responsible for identifying risks related to ongoing business activities, changes in the environment (markets or regulation) or the launch of new activities (new products and services or new markets). Secondly, it records the identified risks using suitable methods and quantifies them using measuring systems as far as possible. These risks are then consolidated, analyzed and monitored. Vontobel employs conventional methods and procedures to achieve this (see the following sections on the individual risk categories). Market and credit risks are monitored on a daily basis and compared with the limits that have been set. If any limits are exceeded, this is reported immediately and the position is monitored closely until the additional exposure is reduced. The Risk Control unit's third responsibility is to transparently present the risks that have been assumed.

Adequacy of internal control systems
The management and control of all risks is essentially performed using a holistic approach referred to as the Internal Control System (ICS). In accordance with the FINMA Circular 01/17 “Corporate governance – banks”, as well as the provisions governing control processes during the production of financial statements according to the Swiss Code of Obligations, existing control processes are regularly reviewed and further optimized. As well as ensuring compliance with legal and regulatory requirements, the focus is on ensuring the effectiveness, efficiency and reliability of business processes as well as of financial information and risk data.

Transparency regarding the risks taken
Vontobel’s risk policy distinguishes between strategic, market, liquidity, credit, operational and reputational risks. The latter are considered to be of particular and overriding importance. The Board of Directors, Executive Board and employees know that the good reputation of Vontobel and the trust which is placed in it are based on their ability to strike a balance between profit orientation, risk tolerance and compliance with mandatory rules of conduct each day.

The transparent presentation of the risk profile in consolidated form and of the individual risks that have been assumed in detailed form is a core function of the Risk Control team (see above). The front office areas that are responsible for risk management are informed about market and credit risks on a daily basis, mainly via suitable reports. However, reports on operational risks are provided at appropriate intervals rather than on a daily basis.

The Executive Board and the Board of Directors are informed in full about any changes in individual risk factors and the Group’s risk profile via consolidated periodic risk reports. The valuation principles are set out in note 32.

2. Strategic risk

Vontobel defines strategic risk as the risk that the strategic objectives it has set, and the operational objectives derived from them, will not be realized in the course of current business operations due to a failure to adequately adapt to changing operating conditions or as a result of decisions that subsequently prove to be wrong.

Strategic risk is regularly reviewed and assessed as part of Vontobel’s holistic approach to risk monitoring, with a particular focus being placed on the assessment of the environment and of the company’s strategic direction. The Executive Board is informed of the qualitative results of the analysis, which are approved by the Board of Directors. If necessary, risk mitigation measures are defined and implemented. These measures are also taken into account in strategic and operational planning.

3. Market risk

3.1 General information
Market risk refers to the risk of losses as a result of changes in market parameters such as interest rates, credit spreads, foreign exchange rates, stock prices or commodities prices and the corresponding volatilities. Market risks are relevant in various areas, both within and outside Investment Banking.

In Investment Banking, the major proportion of the risk positions originates from the business with proprietary products such as warrants, certificates and structured products, as well as the hedging of these instruments. The Financial Products business unit in Investment Banking is responsible for these positions, as well as for foreign exchange and money market trading, the management of the foreign exchange position and collateral trading (repo transactions and securities lending and borrowing transactions). Market risks are limited and monitored using a multi-level system of limits. In addition to the Value at Risk limits and stress exposure limits prescribed at a global level and for each trading unit, this system defines a wide range of detailed sensitivity limits and volume limits in order to control and limit risks.

Positions involving market risks are also held outside Investment Banking. These financial investments consist of broadly diversified portfolios and non-consolidated holdings, with the allocation to equities being maintained at a consistently low level. The financial investments are classified as “available-for-sale”. Non-strategic exposures in equity instruments and investment funds (including alternative investments) are classified as “Other financial assets at fair value through profit and loss” (see note 14). To quantify and limit risk, the same measurement methods – i.e. Value at Risk and stress exposure – are used for these positions at a consolidated level as for the positions held by Investment Banking.

Further information on market risks at overall balance sheet level (interest rate risks and currency risks) can be found in section 3.3 “Market risks related to the balance sheet structure”.

3.2 Market risks related to Investment Banking and other securities holdings
3.2.1 Value at Risk (VaR)
The management and control of market risks for all the positions in Investment Banking as well as for securities holdings outside Investment Banking is based on specific sensitivity and volume limits as well as on Value at Risk and stress exposure measurements, in line with the general market standard.

VaR is measured daily using the historical simulation method. All instruments are revalued based on historical changes to the risk factors. As a result, the historically observed volatility of the individual risk factors and the historically observed correlations between the individual risk factors are imputed directly into the VaR calculations.

The confidence level is 99%, the holding period is set at one day and the historical period of observation to determine the time series relevant to VaR extends over the last four years.

The following table shows the VaR for Vontobel as a whole, as well as for Investment Banking. The average VaR for the year under review totalled CHF 4.1 mn for Vontobel as a whole, of which CHF 2.5 mn related to Investment Banking (2016: average VaR of CHF 8.7 mn for Vontobel and of CHF 2.7 mn for Investment Banking).

The table also shows the relative importance of the VaR of the individual risk factors as a proportion of total VaR. The average VaR figures indicate that in the case of Vontobel, currency risks and interest rate risks (including issuer-specific credit spread risks) represent the most significant risk factors and are comparable in scale. Equity and commodities risks are of secondary importance.

Value at Risk (VaR) for Vontobel overall and for Investment Banking [1]

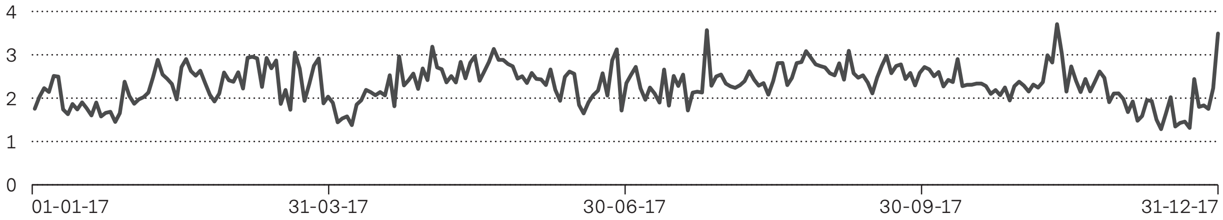
CHF MN	EQUITIES [2]	INTERESTS INCL. CREDIT SPREAD	CURRENCIES [3]	COMMODITIES	DIVERSI-FICATION	31.12.2017 TOTAL
Vontobel:	**3.0**	**2.3**	**1.7**	**0.6**	**–3.4**	**4.2**
Average	1.9	3.2	2.3	0.9	–4.2	4.1
Minimum	0.8	2.2	0.6	0.3	n/a [4]	2.7
Maximum	3.7	4.6	3.8	3.4	n/a [4]	5.6
of which Investment Banking:	*2.7*	*1.1*	*0.5*	*0.6*	*–1.3*	*3.6*
Average	*1.4*	*1.2*	*1.2*	*0.9*	*–2.2*	*2.5*
Minimum	*0.6*	*0.9*	*0.2*	*0.3*	n/a [4]	*1.5*
Maximum	*3.9*	*1.6*	*3.5*	*3.4*	n/a [4]	*3.9*

CHF MN	EQUITIES [2]	INTERESTS INCL. CREDIT SPREAD	CURRENCIES [3]	COMMODITIES	DIVERSI-FICATION	31.12.2016 TOTAL
Vontobel:	**1.7**	**4.5**	**1.8**	**1.1**	**–4.1**	**5.0**
Average	6.0	4.8	2.2	1.1	–5.4	8.7
Minimum	1.1	3.0	0.9	0.1	n/a [4]	3.6
Maximum	9.5	6.5	6.4	3.0	n/a [4]	13.0
of which Investment Banking:	*1.7*	*1.6*	*0.5*	*1.1*	*–2.7*	*2.2*
Average	*1.4*	*2.1*	*0.5*	*1.2*	*–2.5*	*2.7*
Minimum	*0.6*	*0.7*	*0.2*	*0.2*	n/a [4]	*1.8*
Maximum	*3.4*	*3.1*	*2.5*	*3.1*	n/a [4]	*4.6*

1 99% confidence level; 1-day holding period; historical observation period of the last four years. The contributions to the risk factors include both price and volatility risks.
2 Including positions in investment funds and hedge funds
3 Including precious metals
4 The maximum and minimum exposures for the total VaR and component VaR may have arisen on different days. Diversification is therefore not applicable here.

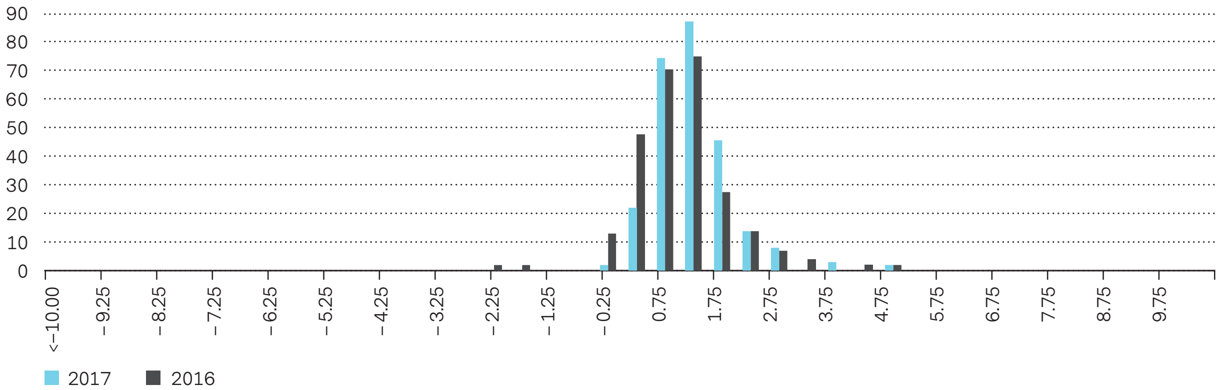
The graph below shows the development over time of 1-day VaR for the positions of Investment Banking / Financial Products at Vontobel. There is also a graph to show the frequency distribution of daily gains and losses for the years 2017 and 2016.

Value at Risk (VaR)[1] for the positions of Investment Banking/Financial Products
CHF MN



1 99% confidence level; 1-day holding period; last four years historical observation period

Frequency distribution of the gains and losses of the positions Investment Banking/Financial Products[1]
number of days



1 The reported gains and losses represent actual income incl. spreads as well as income from intraday trading (in CHF mn).

3.2.2 Stress exposure

In addition to the VaR limits based on a 99% confidence level, stress exposure limits have also been defined. The corresponding stress tests are conducted on a daily basis. All positions held by Investment Banking and all other securities positions are re-evaluated in a variety of stress scenarios (with 1-day to 10-day holding periods) and the scenario with the largest loss is subsequently defined as the stress exposure. The calculations are based on historical and institute-specific stress scenarios. The stress scenarios are reviewed regularly and are supplemented or adapted where necessary based on changes in the market environment and risk positioning.

3.3 Market risks related to the balance sheet structure

The Treasury unit is responsible for managing the balance sheet structure, capital and liquid assets. Interest rate risks and currency risks are monitored and limited as part of the Group's asset and liability management (ALM) activities. Treasury is also responsible for securing refinancing and monitoring liquidity risk on a continuous basis.

3.3.1 Interest rate risk

Interest rate and foreign-exchange risks arise in balance sheet management through differing interest commitments and foreign currencies on the asset and liability side of the balance sheet and of off-balance-sheet items. These risks are managed and monitored at an aggregated level. The interest rate sensitivities of the market value of shareholders' equity (broken down to show positions within and outside Investment Banking) are presented below. The table shows the gains and losses by currency and maturity range, assuming a +/–100 basis point change in interest rates in accordance with the reporting of interest rate risks prescribed by FINMA Circular 08/6. Assuming additive aggregation between individual currencies, the sensitivity to a +100 basis points change corresponds to CHF –5.9 mn for the current year and CHF +10.9 mn for the previous year.

Interest rate risk

					INTEREST SENSITIVITY AS OF 31.12.2017	
CHF MN	**UP TO 1 MONTH**	**1 TO 3 MONTHS**	**3 TO 12 MONTHS**	**1 TO 5 YEARS**	**MORE THAN 5 YEARS**	**TOTAL**
Interest rate risk						
+100 basis points						
CHF: Vontobel	0.2	1.9	5.0	16.3	–24.7	–1.3
of which IB	*0.0*	*1.5*	*1.2*	*4.0*	*2.1*	*8.8*
of which non-IB	*0.2*	*0.4*	*3.8*	*12.3*	*–26.8*	*–10.1*
USD: Vontobel	0.1	1.1	4.8	–7.2	–1.4	–2.6
of which IB	*0.0*	*0.6*	*1.2*	*0.5*	*–1.3*	*1.0*
of which non-IB	*0.1*	*0.5*	*3.6*	*–7.7*	*–0.1*	*–3.6*
EUR: Vontobel	–0.1	0.5	5.1	–0.8	–1.6	3.1
of which IB	*–0.1*	*0.3*	*2.8*	*–1.6*	*1.5*	*2.9*
of which non-IB	*0.0*	*0.2*	*2.3*	*0.8*	*–3.1*	*0.2*
Others: Vontobel	0.1	0.0	–0.4	–3.6	–1.2	–5.1
of which IB	*0.1*	*0.0*	*–0.2*	*–1.4*	*–0.9*	*–2.4*
of which non-IB	*0.0*	*0.0*	*–0.2*	*–2.2*	*–0.3*	*–2.7*
–100 basis points						
CHF: Vontobel	–0.2	–0.7	–5.1	–15.8	28.7	6.9
of which IB	*0.0*	*–0.3*	*–1.2*	*–3.1*	*–0.8*	*–5.4*
of which non-IB	*–0.2*	*–0.4*	*–3.9*	*–12.7*	*29.5*	*12.3*
USD: Vontobel	–0.1	–1.1	–5.0	7.4	1.6	2.8
of which IB	*0.0*	*–0.6*	*–1.3*	*–0.6*	*1.4*	*–1.1*
of which non-IB	*–0.1*	*–0.5*	*–3.7*	*8.0*	*0.2*	*3.9*
EUR: Vontobel	0.0	–0.6	–6.1	0.4	1.1	–5.2
of which IB	*0.0*	*–0.4*	*–3.7*	*1.2*	*–2.3*	*–5.2*
of which non-IB	*0.0*	*–0.2*	*–2.4*	*–0.8*	*3.4*	*0.0*
Others: Vontobel	–0.1	–0.1	0.4	3.7	1.3	5.2
of which IB	*–0.1*	*–0.1*	*0.2*	*1.4*	*1.0*	*2.4*
of which non-IB	*0.0*	*0.0*	*0.2*	*2.3*	*0.3*	*2.8*

IB = Investment Banking

Interest rate risk

CHF MN	UP TO 1 MONTH	1 TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
						INTEREST SENSITIVITY AS OF 31.12.2016
Interest rate risk						
+100 basis points						
CHF: Vontobel	0.4	–0.1	2.5	28.6	–12.4	19.0
of which IB	*0.1*	*–0.1*	*0.7*	*6.9*	*2.5*	*10.1*
of which non-IB	*0.3*	*0.0*	*1.8*	*21.7*	*–14.9*	*8.9*
USD: Vontobel	0.2	0.4	0.0	–9.7	–4.1	–13.2
of which IB	*0.0*	*0.4*	*1.0*	*–0.2*	*–0.2*	*1.0*
of which non-IB	*0.2*	*0.0*	*–1.0*	*–9.5*	*–3.9*	*–14.2*
EUR: Vontobel	0.1	–0.3	5.6	0.7	–4.9	1.2
of which IB	*0.0*	*–0.1*	*4.4*	*–4.4*	*–0.1*	*–0.2*
of which non-IB	*0.1*	*–0.2*	*1.2*	*5.1*	*–4.8*	*1.4*
Others: Vontobel	0.1	0.1	0.5	3.7	–0.5	3.9
of which IB	*0.0*	*0.1*	*0.1*	*–1.8*	*–0.5*	*–2.1*
of which non-IB	*0.1*	*0.0*	*0.4*	*5.5*	*0.0*	*6.0*
–100 basis points						
CHF: Vontobel	–0.4	0.8	–2.5	–29.2	13.9	–17.4
of which IB	*–0.1*	*0.8*	*–0.7*	*–6.8*	*–2.5*	*–9.3*
of which non-IB	*–0.3*	*0.0*	*–1.8*	*–22.4*	*16.4*	*–8.1*
USD: Vontobel	–0.2	–0.5	0.0	10.4	4.5	14.2
of which IB	*0.0*	*–0.5*	*–1.0*	*0.2*	*0.3*	*–1.0*
of which non-IB	*–0.2*	*0.0*	*1.0*	*10.2*	*4.2*	*15.2*
EUR: Vontobel	–0.1	0.3	–5.7	–2.1	0.9	–6.7
of which IB	*0.0*	*0.1*	*–4.5*	*2.9*	*–4.2*	*–5.7*
of which non-IB	*–0.1*	*0.2*	*–1.2*	*–5.0*	*5.1*	*–1.0*
Others: Vontobel	–0.1	–0.2	–0.7	–3.9	0.6	–4.3
of which IB	*0.0*	*–0.2*	*–0.2*	*1.8*	*0.6*	*2.0*
of which non-IB	*–0.1*	*0.0*	*–0.5*	*–5.7*	*0.0*	*–6.3*

IB = Investment Banking

Under IFRS, the market value effect of changes in interest ates in Investment Banking essentially has an impact on the income statement, as well as on shareholders' equity as a result of changes in retained earnings. However, the only impact outside Investment Banking is on interest rate sensitive positions that are assigned to the category "fair value through profit and loss" under IFRS. In the case of interest rate sensitive financial investments in the category "available-for-sale", the market value effect of changes in interest rates only has an impact on shareholders' equity.

If interest rates changed by +100 (–100) basis points, the impact on pre-tax profit in Investment Banking would be CHF +10.3 mn as of 31.12.2017 and CHF +8.8 mn as of 31.12.2016 (31.12.2017: CHF –9.3 mn, 31.12.2016: CHF –14.0 mn) and the pre-tax impact on consolidated shareholders' equity would be CHF –25.1 mn as of 31.12.2017 and CHF –48.9 mn as of 31.12.2016 (31.12.2017: CHF +27.7 mn, 31.12.2016: CHF +46.4 mn).

In view of the limited significance of interest income from variable interest-bearing positions or positions which expire in the course of the year, the impact of a change in interest rates on income levels has not been simulated.

3.3.2 Currency risk

As in the case of interest rate risks, currency risks relating to trading positions and the balance sheet structure are kept at a low level. This is achieved primarily through currency-congruent investments and refinancing activities. The following table shows the sensitivities to changes in foreign exchange rates of +/–5% according to internal reports.

Currency risk

	CURRENCY SENSITIVITY AS OF 31.12.2017					
1,000 CHF	USD	EUR	JPY	GBP	PRECIOUS METALS	OTHERS
+5%						
Vontobel	6,835.2	6,785.5	–30.8	3,207.1	–868.7	3,484.1
of which IB	*1,489.7*	*293.6*	*–2.5*	*538.6*	*–868.7*	*402.8*
of which non-IB	*5,345.5*	*6,491.9*	*–28.3*	*2,668.5*	*0.0*	*3,081.3*
–5%						
Vontobel	–7,855.5	–7,357.7	–182.5	–2,574.6	–612.8	–2,779.6
of which IB	*–2,510.0*	*–865.8*	*–210.8*	*93.9*	*–612.8*	*301.7*
of which non-IB	*–5,345.5*	*–6,491.9*	*28.3*	*–2,668.5*	*0.0*	*–3,081.3*

	CURRENCY SENSITIVITY AS OF 31.12.2016					
1,000 CHF	USD	EUR	JPY	GBP	PRECIOUS METALS	OTHERS
+5%						
Vontobel	5,444.7	6,331.9	–17.2	2,463.1	–32.5	3,470.7
of which IB	*–45.3*	*446.4*	*–10.6*	*145.9*	*–32.5*	*223.2*
of which non-IB	*5,490.0*	*5,885.5*	*–6.6*	*2,317.2*	*0.0*	*3,247.5*
–5%						
Vontobel	–5,895.1	–6,833.8	–180.9	–2,524.6	–312.5	–3,115.7
of which IB	*–405.1*	*–948.3*	*–187.5*	*–207.4*	*–312.5*	*131.8*
of which non-IB	*–5,490.0*	*–5,885.5*	*6.6*	*–2,317.2*	*0.0*	*–3,247.5*

IB = Investment Banking

4. Liquidity risk and refinancing

Liquidity risk refers to the risk of being unable to cover short-term funding needs at any time (e.g. due to the impossibility of substituting or renewing deposits, outflows of funds due to drawing on lending commitments or margin calls). Liquidity risk management ensures that Vontobel always has sufficient liquidity to be able to fulfil its payment obligations, even in stress scenarios. The liquidity risk management system therefore comprises functional risk measurement and control systems to ensure its continuous ability to pay its obligations at any time. It also defines strategies and requirements for the management of liquidity risk under stress conditions as part of the defined liquidity risk tolerance. They mainly include risk mitigation measures, the holding of a liquidity buffer comprising highly liquid assets, and a contingency plan to manage any liquidity shortfalls.

The diversification of sources of refinancing and access to the repo market ensure that cash and cash equivalents are rapidly available on a secured basis if required. Liquidity is monitored and assured on a daily basis. The continuous monitoring of the volume and quality of available collateral also ensures that Vontobel always has adequate refinancing capabilities. In the event of an unexpected tightening of liquidity, the Group can also access a portfolio of positions that retain their value and can easily be liquidated.

The maturity structure of assets and liabilities is shown in note 31. Liquidity has to be provided for the daily market making required for the issuing and trading business. Consequently, the balance sheet positions "Trading portfolio assets", "Positive replacement values", "Other financial assets at fair value", "Trading portfolio liabilities", "Negative replacement values" and "Other financial liabilities at fair value" are not broken down into individual cash flows and divided into different maturity ranges but are, instead, reported at fair value in the "Demand" column. In the case of the other financial balance sheet positions, the book values are reported in the maturity range which represents the earliest point at which payment can be demanded according to the contractual provisions. In view of the predominantly short maturities, the breakdown of these positions into individual cash flows would provide an only marginally different view.

As part of the package of reforms announced by the Basel Committee on Banking Supervision (BCBS) in December 2010, it was decided that two quantitative minimum standards for liquidity management would be introduced: (a) the liquidity coverage ratio (LCR), which took effect on 1 January 2015, and (b) the net stable funding ratio (NSFR), which is planned to be introduced by 1 January 2019.

Liquidity Coverage Ratio in accordance with FINMA Circular 15 / 2

AVERAGE	2ND HALF YEAR 2017	4TH QUARTER 2017	3RD QUARTER 2017
Total stock of high quality liquid assets (HQLA) in CHF mn	7,155.7	7,134.0	7,177.3
Total net cash outflows in CHF mn	4,182.8	4,033.6	4,332.0
Liquidity Coverage Ratio LCR in %	171.1	176.9	165.7

The liquidity coverage ratio is disclosed in accordance with the requirements set out in FINMA Circular 16 / 1. The values used to calculate the liquidity coverage ratio are simple monthly averages for the relevant quarter or half-year. The average is calculated based on the values shown in the monthly liquidity status reports submitted to FINMA and the SNB. This results in three data points per quarter.

For 2017, the liquidity coverage ratio had to exceed 80 %. The main factors influencing Vontobel's liquidity coverage ratio are cash holdings as high-quality liquid assets, customer cash accounts as weighted cash outflows, and reverse-repurchase agreements maturing within 30 calendar days as cash inflows.

5. Credit risk

5.1 General information

Credit risk concerns the risk of losses should a counterparty fail to honour its contractual obligations. In the case of Vontobel, credit risk comprises:

- Default risks from lending against collateral ("lombard lending") and mortgage-backed loans
- Default risks from bond positions (issuer risk)
- Default risks from money market investments
- Default risks related to securities lending and borrowing, repo transactions, collateral management and derivatives, as well as
- Default risks related to settlement.

In principle, Vontobel does not engage in commercial lending. Mortgages to finance the purchase of real estate and lombard loans are offered to our clients and employees.

5.2 Lending to private and institutional investment clients

In the case of private and institutional investment clients, Vontobel engages primarily in lending against collateral, i.e. the extension of loans is subject to the provision of securities that serve as easily realizable collateral. As a restriction on lending, limits on blanket credit lines are set for each client. These limits cover all the exposures assumed in respect of each client. These exposures (including the risk add-ons determined by the type of exposure) must essentially be covered by the collateral value of the collateral (securities after haircuts). Exposures that are only secured from a market value perspective but not after the application of collateral add-ons or haircuts, or exposures that are secured by collateral that is not recognized according to the guidelines of the Basel Committee on Banking Supervision, are only assumed in exceptional cases in respect of these clients. The lending value of positions and portfolios is generally determined in accordance with the "comprehensive approach" prescribed in the capital adequacy requirements of the Basel Committee on Banking Supervision (Basel III). The quality of the collateral (volatility, rating, liquidity and tradability) and the diversification of the portfolio and currency risks are considered in the calculation.

In cases where the exposures are covered by market values but not by collateral values (i.e. after taking account of risk discounts), a default process is initiated with the aim of restoring cover through the reduction of the exposures, portfolio switches or the provision of additional collateral.

As of 31.12.2017, gross exposures (incl. mortgages) to private clients and institutional investment clients totalled CHF 3,945.9 mn (31.12.2016: CHF 3,000.6 mn), of which CHF 3,806.3 mn (31.12.2016: CHF 2,894.3 mn) was secured by recognized financial collateral (after risk discounts) and CHF 139.6 mn (31.12.2016: CHF 106.3 mn) was not secured by recognized financial collateral.

Lending to private and institutional investment clients[1]

CHF MN	COVERED BY RECOGNIZED COLLATERAL	NOT COVERED BY RECOGNIZED COLLATERAL	31.12.2017 TOTAL
Lending exposure	3,806.3	139.6	3,945.9

CHF MN	COVERED BY RECOGNIZED COLLATERAL	NOT COVERED BY RECOGNIZED COLLATERAL	31.12.2016 TOTAL
Lending exposure	2,894.3	106.3	3,000.6

1 Comprises not only cash credits but also the total due from private and institutional investment clients.

5.3 Exposures to professional counterparties and issuer risk

Vontobel has both secured and unsecured exposures to professional counterparties.

Secured exposures result from securities lending and borrowing, repo transactions, the collateral management of margin obligations and margin calls, as well as the collateralization of OTC derivatives that are eligible for netting. The **mitigation of credit risks** using securities as easily realizable liquid collateral is of key importance for these types of transactions. The transactions are generally concluded on the basis of collateralized netting agreements with strict requirements regarding eligible collateral, appropriate contractual collateral values and low contractual thresholds and minimum transfer amounts. The daily calculation and comparison of credit exposures and collateral is a core element of the management and monitoring of credit risks. During this process, conservative add-on factors are applied to the credit exposures and conservative haircuts are applied to the collateral in accordance with the “comprehensive approach” prescribed in the capital adequacy requirements of the Basel Committee on Banking Supervision (Basel III). The different add-ons and haircuts are determined according to the instrument, rating, term to maturity, liquidity and tradability.

Unsecured exposures mainly comprise the **issuer risks in bond portfolios** held in Investment Banking or for the purpose of balance sheet management. They also include exposures relating to money market transactions, accounts, guarantees and contractual independent amounts (threshold values and minimum transfer amounts) that are agreed with counterparties in netting agreements for securities lending and borrowing, repurchase agreements and the collateralization of OTC derivatives.

Settlement risks are reduced through the use of the Continuous Linked Settlement (CLS) system when conducting foreign currency transactions. Vontobel is connected to the CLS system as a third party.

All exposures to professional counterparties and issuers are monitored and restricted using a differentiated system of limits – which is defined in the Credit Regulations and is reviewed annually – for the individual counterparty categories, rating segments, countries and regions.

Vontobel bases the management and limitation of exposures to professional counterparties on internal assessments by the Credit Research unit as well as on the ratings of external agencies recognized by FINMA. It uses the ratings of Fitch, Moody’s, S&P and Fedafin (public sector bodies only). If various ratings exist for a specific position, the relevant rating is assigned according to the rules prescribed by the Basel Committee on Banking Supervision.

The requirements regarding **counterparty creditworthiness** are particularly high for unsecured credit risks as well as issuer risks. The breakdown of unsecured counterparty and issuer risks by rating category is shown in the following table and graph. This and the following tables only contain information on current unsecured exposures without potential exposures relating to collateralized positions. The figures including the application of add-ons or haircuts in accordance with capital regulations are presented in the tables in the section on capital.

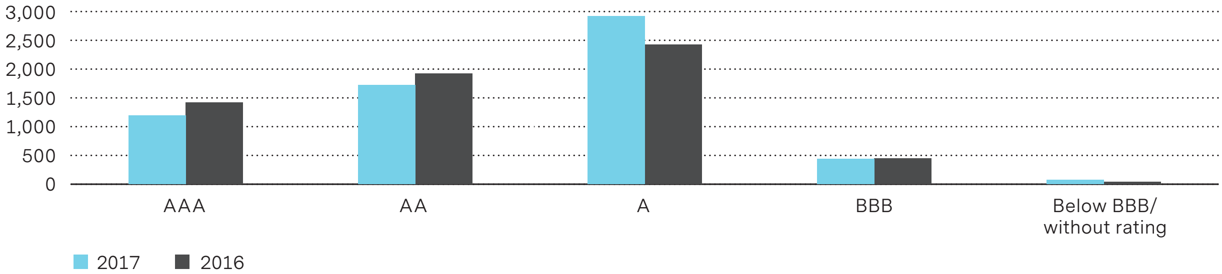
Breakdown of unsecured counterparty and issuer risks by rating[1]

CHF MN	AAA	AA	A	BBB	BELOW BBB/ WITHOUT RATING	31.12.2017 TOTAL
Issuer risk from debt instruments[2]	1,103.2	1,559.9	2,625.6	394.2	33.2	5,716.1
Money market and accounts[3]	65.5	130.5	87.8	36.1	37.1	357.0
Other financial receivables[4]	21.4	30.1	205.8	8.7	3.7	269.7
Total	**1,190.1**	**1,720.5**	**2,919.2**	**439.0**	**74.0**	**6,342.8**
Share (%)	18.8	27.1	46.0	6.9	1.2	100.0

CHF MN	AAA	AA	A	BBB	BELOW BBB/ WITHOUT RATING	31.12.2016 TOTAL
Issuer risk from debt instruments[2]	1,380.3	1,655.1	2,141.1	349.6	36.9	5,563.0
Money market and accounts[3]	26.6	234.9	82.4	96.2	3.6	443.7
Other financial receivables[4]	13.5	28.5	203.3	4.3	1.8	251.4
Total	**1,420.4**	**1,918.5**	**2,426.8**	**450.1**	**42.3**	**6,258.1**
Share (%)	22.7	30.6	38.8	7.2	0.7	100.0

1 Unsecured credit exposure after contractual netting without the application of add-ons on derivatives and haircuts on other financial securities
2 Incl. positions in credit default swaps (synthetic bond positions) in the amount of CHF 461.1 mn as of 31.12.2017 or CHF 939.1 mn as of 31.12.2016
3 The cash account of CHF 2,678.7 mn as of 31.12.2017 or CHF 2,827.1 mn as of 31.12.2016 deposited at the SNB has been excluded..
4 Securities lending & borrowing, repo transactions, collateral management, derivatives, guarantees, and pledged capital life insurance policies

Breakdown of uncovered credit risks by rating (CHF mn)
in CHF mn



The exposures mainly relate to the rating categories “AAA” and “AA”, as shown in the previous table and graph: as of 31.12.2017, 46% (31.12.2016: 53%) of the exposures related to these categories of high creditworthiness. 92% of the exposures comprised a rating of “A” or above (31.12.2016: 92%). The proportion of exposures with a rating of less than “BBB” or with no rating was 1% (31.12.2016: 1%).

Breakdown of unsecured counterparty and issuer risks by counterparty type[1]

CHF MN	BANKS	OTHER CORPORATIONS / INSTITUTIONS WITHOUT BANK STATUS	GOVERNMENTS / PUBLIC SECTOR BODIES	31.12.2017 TOTAL
Issuer risk from debt instruments[2]	2,529.7	1,270.5	1,915.9	5,716.1
Money market and accounts[3]	263.4	24.6	69.0	357.0
Other financial receivables[4]	67.4	196.3	6.0	269.7
Total	**2,860.5**	**1,491.4**	**1,990.9**	**6,342.8**

CHF MN	BANKS	OTHER CORPORATIONS / INSTITUTIONS WITHOUT BANK STATUS	GOVERNMENTS / PUBLIC SECTOR BODIES	31.12.2016 TOTAL
Issuer risk from debt instruments[2]	2,269.0	1,361.3	1,932.7	5,563.0
Money market and accounts[3]	369.0	25.5	49.2	443.7
Other financial receivables[4]	51.3	195.0	5.1	251.4
Total	**2,689.3**	**1,581.8**	**1,987.0**	**6,258.1**

1 Unsecured credit exposure after contractual netting without the application of add-ons on derivatives and haircuts on other financial securities
2 Incl. positions in credit default swaps (synthetic bond positions) in the amount of CHF 461.1 mn as of 31.12.2017 or CHF 939.1 mn as of 31.12.2016
3 The cash account of CHF 2,678.7 mn as of 31.12.2017 or CHF 2,827.1 mn as of 31.12.2016 deposited at the SNB has been excluded..
4 Securities lending & borrowing, repo transactions, collateral management, derivatives, guarantees and pledged capital life insurance policies

In terms of counterparty type, a large proportion of unsecured counterparty and issuer risks relates to governments and banks, as expected. As of 31.12.2017, governments, including public sector bodies, accounted for CHF 1,990.9 mn (31.12.2016: CHF 1,987.0 mn) of a total of CHF 6,342.8 mn (31.12.2016: CHF 6,258.1 mn) or 31% (31.12.2016: 32%). Banks accounted for CHF 2,860.5.mn (31.12.2016: CHF 2,689.3 mn) of a total of CHF 6,342.8 mn (31.12.2016: CHF 6,258.1 mn) or 45% (31.12.2016: 43%).

When setting limits, considerable importance is assigned to preventing concentration risks relating to individual counterparties, thus ensuring that exposures within counterparty categories are broadly diversified.

Breakdown of unsecured counterparty and issuer risks by region[1]

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	NORTH AMERICA	ASIA	OTHERS	31.12.2017 TOTAL
Issuer risk from debt instruments[2]	389.0	2,380.4	1,279.2	1,534.3	133.2	5,716.1
Money market and accounts[3]	86.7	238.5	27.5	3.8	0.5	357.0
Other financial receivables[4]	74.4	155.5	16.4	23.4	0.0	269.7
Total	**550.1**	**2,774.4**	**1,323.1**	**1,561.5**	**133.7**	**6,342.8**

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	NORTH AMERICA	ASIA	OTHERS	31.12.2016 TOTAL
Issuer risk from debt instruments[2]	401.9	2,505.1	1,047.5	1,514.2	94.3	5,563.0
Money market and accounts[3]	159.3	208.8	70.0	4.8	0.8	443.7
Other financial receivables[4]	73.4	144.1	10.8	23.1	0.0	251.4
Total	**634.6**	**2,858.0**	**1,128.3**	**1,542.1**	**95.1**	**6,258.1**

1 Unsecured credit exposure after contractual netting without the application of add-ons on derivatives and haircuts on other financial securities
2 Incl. positions in credit default swaps (synthetic bond positions) in the amount of CHF 461.1 mn as of 31.12.2017 or CHF 939.1 mn as of 31.12.2016
3 The cash account of CHF 2,678.7 mn as of 31.12.2017 or CHF 2,827.1 mn as of 31.12.2016 deposited at the SNB has been excluded.
4 Securities lending & borrowing, repo transactions, collateral management, derivatives, guarantees, and pledged capital life insurance policies

In geographical terms, the unsecured credit and issuer risks mainly relate to the regions of Europe (excluding Switzerland) and Switzerland. Exposures in the regions of North America and Asia account for a smaller proportion of these risks.

Exposures involving country risks are avoided in principle. Consequently, there are no relevant country risks to report on a consolidated basis.

6. Operational risks

6.1 General information
Operational risks represent the risk of losses resulting from the inadequacy or failure of internal processes, people and systems or from external events.

6.2 Processes and methods
All business activities entail operational risks, which are prevented, mitigated, transferred or even assumed based on cost/benefit considerations. During this process, potential legal, regulatory and compliance-related risks are taken into account, as are follow-on risks in the form of reputational risks.

The Group-wide process model represents the basis for the management of operational risks. As part of the systematic assessments that are performed annually, the operational risks in all critical processes and process entities are identified and evaluated. In addition, further attention is focused on core security topics such as data protection and business continuity management, which are guaranteed through the use of extra tools.

6.2.1 Qualitative assessment
The qualitative assessment of operational risks is carried out using estimates of the loss potential and possible frequency of these risks. Once these inherent risks have been calculated, existing controls and further risk mitigation measures are taken into account to determine the residual risks. These residual risks are considered in order to determine compliance with pre-defined risk tolerances. If risk tolerances are exceeded, further risk mitigation measures are defined.

6.2.2 Quantitative assessment
In addition to qualitative assessments, quantitative methods are also used to measure and monitor operational risks. They include the monitoring of key risk indicators and the development of those indicators for all divisions. The risks measured in this context are also compared with the relevant pre-defined risk tolerances and if these tolerances are exceeded, further risk mitigation measures are defined.

6.2.3 Internal Control System
All measures to control operational risks form part of the Internal Control System (ICS). Consequently, the ICS encompasses all control elements that ensure the necessary framework for the achievement of strategic business objectives and the orderly running of operations at all levels of the organization. The ICS is reviewed at least once annually and is adapted or strengthened if necessary.

6.3 Legal, regulatory and compliance-related risks
Legal and compliance-related risks are the risk of losses occurring due to non-compliance with or the infringement of applicable laws, internal or external codes of conduct and market practices, as well as contractual obligations. Issues such as these may not only lead to financial losses but can equally result in regulators imposing fines and measures on the organization or can give rise to reputational harm. Regulatory risk is essentially the risk that changes to laws and rules of conduct could impact on Vontobel's activities.

As a market participant in the financial services industry, Vontobel is subject to extensive regulations and requirements defined by government bodies, regulatory authorities and self-regulatory organizations in Switzerland and other countries in which Vontobel operates.

To prevent or mitigate legal, regulatory and compliance-related risks, Vontobel has implemented the relevant structures and processes that are designed to raise employee awareness of or to provide initial or further training for employees about this topic. In addition, Vontobel has an appropriate system of policies and effective control processes in place to ensure compliance with legal and regulatory framework conditions. The corresponding compliance standards are regularly reviewed by Vontobel and adapted to regulatory and legal developments.

6.4 IT & cyber risks
Due to our business model, we operate in a complex technological environment. The protection of confidentiality, integrity and the availability of IT systems is therefore of critical importance for our operations.

IT risk forms part of our operational risks and represents the risk that a technical failure could affect our business activities. These risks are not only inherent in our IT infrastructure but also affect the employees and processes that interact with it. It is essential that the data used to support centralized business processes and reporting is secure, complete, accurate and up to date and that it meets appropriate quality standards.

In addition, our critical IT systems must be secure and resilient and have the necessary ability, capacity and adaptability to meet our current and future business objectives, client needs, and regulatory and legal requirements.

Cyber risk is an integral part of IT risk and involves cases where the functioning of our systems is compromised as a result of cyber attacks, security breaches, unauthorized access, loss or destruction of data, unavailability of services, computer viruses or other security-related events.

To prevent and manage IT and cyber risks, various tools are used as part of our comprehensive IT risk management approach, both at operational level and in terms of business continuity and other crisis and emergency plans.

6.5 Insurance

Vontobel's insurance policy is aligned with the Group's operational risk management and financial risks.

In the first instance, Vontobel strives to prevent or mitigate risks as far as possible in accordance with the Group's risk policy. In a second step, it determines whether Vontobel can and should bear the risks itself. If this is not the case, the risks are covered by insurance policies. In particular, Vontobel insures against risks of a catastrophic nature in order to protect its capital base.

The internal Insurance unit analyses and evaluates the need for insurance measures on an ongoing basis.

Various other factors are taken into account when purchasing insurance. They mainly comprise legal requirements (compulsory insurance). However, a whole series of other business considerations lead to a wide range of risks for which insurance cover is acquired.

7. Reputational risks

A reputational risk is understood to be the risk of events occurring that could cause sustained harm to Vontobel's image. As such, reputational risks often constitute follow-on risks to the other risk categories described above.

Vontobel's ability to conduct its business depends to a significant extent on its reputation, which it has built over the bank's long history. It is therefore of key importance for Vontobel to safeguard its good name and all employees have to assign this matter the highest priority. Consequently, appropriate measures are taken on an ongoing basis to make employees aware of the key importance of Vontobel's reputation.

Capital

The capital base serves primarily as a means of covering inherent business risks. The active management of the volume and structure of capital is therefore of key importance. The monitoring and management of capital adequacy is performed primarily on the basis of the regulations and ratios defined by the Basel Committee on Banking Supervision, as well as other criteria. Compliance with the statutory capital adequacy requirements prescribed by Switzerland and the Swiss Financial Market Supervisory Authority (FINMA) is mandatory. External capital adequacy requirements were met in the year under review and in previous years without exception.

1. Capital management

Capital management is aimed primarily at supporting growth and creating added value for shareholders while complying with regulatory capital requirements. A solid capital position and structure also enable Vontobel to demonstrate its financial strength and creditworthiness to its business partners and clients.

Capital management is performed while taking account of the economic environment and the risk profile of all business activities. Various control options are available to maintain the target level of capital and the desired capital structure or to adapt them in line with changing requirements. These options include flexible dividend payments, the repayment of capital or the procurement of various forms of regulatory capital. During the year under review, there were no significant changes to the objectives, principles of action or processes compared to the previous year.

2. Regulatory requirements

The new capital requirements (Basel III) entered into force on 1 January 2013. They are described in detail in the Swiss Capital Adequacy Ordinance (CAO) and the FINMA circulars that it refers to.

To determine net eligible Common Equity Tier 1 capital under Basel III, additional deductions are made from capital calculated in accordance with IFRS. These items were deducted in full – without the use of the offsetting arrangements permitted during the phase-in period that runs until 2018. In addition to goodwill and intangible assets, the following are of particular relevance for Vontobel in this context: unrealized gains on available-for-sale financial investments.

Banks can use a number of different approaches to calculate their capital adequacy requirements according to Basel III. Vontobel applies the International Standardized Approach (SA-BIS) for credit risks, the standardized approach for market risks and the basic indicator approach for operational risks. As part of the reduction of credit risks (risk mitigation), the comprehensive approach with standard haircuts defined by the supervisory authorities is applied for the recognition of collateral.

As a result of the recognition of the fair value option by FINMA in accordance with section XVI. of the FINMA Circular 13/1 (Eligible equity capital – banks), unrealized gains and losses are included in the calculation of tier 1 capital. This excludes the valuation adjustments of own liabilities recorded in accordance with IFRS rules due to a change in own creditworthiness. As a result, tier 1 capital totalled CHF 1,098.6 mn and the BIS tier 1 ratio was 18.4%. The BIS tier 1 ratio thus substantially exceeds the minimum capital ratio.

The scope of consolidation used for the calculation of capital was the same in the year under review and the previous year as the scope of consolidation used for accounting purposes. Please refer to the tables "Major subsidiaries and participations" and "Changes in the scope of consolidation" in the Notes to the consolidated financial statements for further details. With the exception of the statutory regulations, no restrictions apply that prevent the transfer of money or capital within the Group.

Eligible and required capital

CHF MN	31.12.2017	31.12.2016
Eligible capital		
Equity according to balance sheet	1,620.5	1,514.1
Paid-in capital	*56.9*	*56.9*
Disclosed reserves	*1,440.8*	*1,291.2*
Net profit for the current financial year	*202.4*	*259.8*
Deduction for treasury shares	*–79.6*	*–93.8*
Deduction for minority interests	0.0	0.0
Deduction for dividends, as proposed by the Board of Directors	–119.4	–113.8
Deduction for goodwill	–226.8	–223.3
Deduction for intangible assets	–64.3	–55.7
Deduction for deferred tax assets	–20.0	–24.4
Addition (Deduction) for losses (gains) due to changes in own credit risk	0.6	3.9
Deduction for unrealised gains related to financial investments AFS	–4.1	–9.2
Deduction for defined benefit pension fund assets (IAS 19)	–29.9	–22.1
Other adjustments	–58.0	–51.1
Net eligible BIS common equity tier 1 capital (CET1)	**1,098.6**	**1,018.4**
Additional tier 1 capital (AT1)	0.0	0.0
Net eligible BIS tier 1 capital	**1,098.6**	**1,018.4**
Supplementary capital (tier 2)	0.0	0.0
Other deductions from total capital	0.0	0.0
Net eligible regulatory capital (BIS tier 1 + 2)	**1,098.6**	**1,018.4**
Risk-weighted positions		
Credit risks	1,892.6	1,622.4
Receivables	*1,812.1*	*1,519.7*
Price risk relating to equity instruments in the banking book	*80.5*	*102.7*
Non-counterparty related risks	158.6	152.9
Market risks	2,079.3	1,862.0
Interest rates	*1,187.3*	*1,076.1*
Equities	*328.9*	*314.7*
Currencies	*242.8*	*248.6*
Gold	*69.8*	*13.0*
Commodities	*250.5*	*209.6*
Operational risk	1,825.1	1,723.5
Total risk-weighted positions	**5,955.6**	**5,360.8**

Capital ratios in accordance with FINMA Circular 16 / 1

(AS A PERCENTAGE OF RISK-WEIGHTED POSITIONS)	31.12.2017	31.12.2016
CET1 capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 4.5 %)[1]	18.4	19.0
Tier 1 capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 6.0 %)[2]	18.4	19.0
Total capital ratio (minimum requirement BIS Basel III excl. capital conservation buffer: 8.0 %)[3]	18.4	19.0
CET1 available to cover BCBS minimum capital and buffer requirements after deduction of AT1 and T2 capital requirements which are filled by CET1	14.9	15.5
CET1 available	14.2	14.8
T1 available	16.0	16.6
Eligible regulatory capital available	18.4	19.0

1 CET1 capital ratio target according to Annex 8 CAO plus countercyclical buffer: 7.8 %
2 T1 capital ratio target according to Annex 8 CAO plus countercyclical buffer: 9.6 %
3 Total capital ratio target according to Annex 8 CAO plus countercyclical buffer: 12.0 %

The countercyclical buffer requirement (as a percentage of risk-weighted positions) is 0.0.
All investments in the financial sector (< 10 %) are risk-weighted for CAD calculations (31.12.2017: CHF 8.5 mn / 31.12.2016: CHF 8.5 mn).

Leverage ratio in accordance with FINMA Circular 15 / 3

	31.12.2017	31.12.2016
Net eligible BIS tier 1 capital in CHF mn	1,098.6	1,018.4
Total leverage ratio exposure in CHF mn	23,438.1	19,437.9
Leverage ratio (unweighted capital ratio in accordance with Basel III) in %	4.7	5.2

3. Breakdown of credit risks in accordance with FINMA Circular 08 / 22 to be replaced by FINMA Circular 16 / 1

The following tables are intended to provide additional quantitative information regarding the capital adequacy requirements for credit risks, in accordance with the FINMA Circular 08 / 22 which will be gradually replaced by FINMA Circular 16 / 1. Based on this new circular Vontobel will comply with the full disclosure requirements for the reporting period by publishing a stand-alone disclosure report for the first time on April 30, 2018.

The type and volume of information is based on Basel III. The total values may deviate from the book values reported according to IFRS. In particular, off-balance-sheet items are weighted with the corresponding credit conversion factor and reported accordingly. In the case of derivative financial instruments, the negative replacement values that are eligible for offset (netting) are deducted from the positive replacement values. The add-ons that are shown entail a percentage-based premium based on the contract volume of the corresponding derivative financial instruments. The percentage rate is determined on the basis of the underlying and the remaining term of the contract. AFS interest rate instruments comprise financial investments in the banking book that represent an issuer-related risk. All remaining positions that have to be covered with capital for credit risks are reported collectively under “Other assets”. In particular, they include accruals and deferrals, equity instruments in the banking book and hedge funds in trading portfolio assets.

Excluding the above-mentioned positions reported under “Other assets”, the balance sheet items “Trading portfolio assets” and “Other financial assets at fair value” do not entail any credit risks (but do entail a specific market risk) from a regulatory capital perspective and are therefore omitted from the following tables. Information on credit risks in the trading book is provided in section 5.3 of the notes on risk management and risk control.

The domicile of the counterparty or issuer serves as the basis for the allocation to the different geographical regions in the following table.

Credit risks broken down by region

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	NORTH AMERICA	ASIA	OTHERS	31.12.2017 TOTAL
Balance sheet						
Due from banks	1,237.7	392.6	10.4	13.7	4.3	1,658.7
Loans	1,151.9	1,206.6	291.4	216.0	444.6	3,310.5
Debt instruments AFS	81.6	792.7	588.4	178.2	132.1	1,773.0
Other assets	623.6	39.4	4.8	2.3	8.7	678.8
Positive replacement values after netting	21.5	75.0	0.1	0.8	4.5	101.9
Total balance sheet	**3,116.3**	**2,506.3**	**895.1**	**411.0**	**594.2**	**7,522.9**
Off-balance sheet						
Contingent liabilities/ guarantee credits	325.5	209.5	9.5	15.6	44.6	604.7
Irrevocable commitments	22.0	0.3	0.1	0.0	0.0	22.4
Add-ons and credit valuation adjustment	36.7	146.4	0.6	2.0	8.3	194.0
Total off-balance sheet	**384.2**	**356.2**	**10.2**	**17.6**	**52.9**	**821.1**
Total	**3,500.5**	**2,862.5**	**905.3**	**428.6**	**647.1**	**8,344.0**

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	NORTH AMERICA	ASIA	OTHERS	31.12.2016 TOTAL
Balance sheet						
Due from banks	1,031.8	430.8	25.0	10.1	5.0	1,502.7
Loans	887.9	1,120.5	232.6	152.7	208.2	2,601.9
Debt instruments AFS	33.8	1,184.6	674.9	105.3	91.2	2,089.8
Other assets	519.9	66.1	6.4	1.7	5.4	599.5
Positive replacement values after netting	24.0	29.2	0.6	0.2	10.3	64.3
Total balance sheet	**2,497.4**	**2,831.2**	**939.5**	**270.0**	**320.1**	**6,858.2**
Off-balance sheet						
Contingent liabilities/ guarantee credits	155.5	224.2	4.9	6.6	27.3	418.5
Irrevocable commitments	15.5	0.0	0.0	0.0	0.0	15.5
Add-ons and credit valuation adjustment	23.0	51.5	0.6	0.5	7.5	83.1
Total off-balance sheet	**194.0**	**275.7**	**5.5**	**7.1**	**34.8**	**517.1**
Total	**2,691.4**	**3,106.9**	**945.0**	**277.1**	**354.9**	**7,375.3**

The industry code of the counterparty or issuer serves as the basis for the allocation to the different sectors in the following table.

Credit risks broken down by sector or counterparty type

CHF MN	GOVERNMENTS AND CENTRAL BANKS	BANKS	PUBLIC BODIES	PRIVATE AND INSTITUTIONAL INVESTORS	OTHERS	31.12.2017 TOTAL
Balance sheet						
Due from banks	0.0	1,658.7	0.0	0.0	0.0	1,658.7
Loans	3.0	0.0	18.9	3,288.6	0.0	3,310.5
Debt instruments AFS	358.2	302.4	445.3	0.0	667.1	1,773.0
Other assets	3.1	30.6	0.0	377.5	267.6	678.8
Positive replacement values after netting	0.0	75.4	0.0	26.5	0.0	101.9
Total balance sheet	**364.3**	**2,067.1**	**464.2**	**3,692.6**	**934.7**	**7,522.9**
Off-balance sheet						
Contingent liabilities / guarantee credits	0.3	17.5	0.4	502.5	84.0	604.7
Irrevocable commitments	0.0	0.2	7.3	14.9	0.0	22.4
Add-ons and credit valuation adjustment	0.0	151.5	0.0	42.5	0.0	194.0
Total off-balance sheet	**0.3**	**169.2**	**7.7**	**559.9**	**84.0**	**821.1**
Total	**364.6**	**2,236.3**	**471.9**	**4,252.5**	**1,018.7**	**8,344.0**

CHF MN	GOVERNMENTS AND CENTRAL BANKS	BANKS	PUBLIC BODIES	PRIVATE AND INSTITUTIONAL INVESTORS	OTHERS	31.12.2016 TOTAL
Balance sheet						
Due from banks	0.0	1,502.7	0.0	0.0	0.0	1,502.7
Loans	2.0	0.0	12.8	2,566.2	20.9	2,601.9
Debt instruments AFS	330.3	373.6	614.6	0.0	771.3	2,089.8
Other assets	4.9	42.8	0.0	461.7	90.1	599.5
Positive replacement values after netting	0.0	32.1	0.0	32.2	0.0	64.3
Total balance sheet	**337.2**	**1,951.2**	**627.4**	**3,060.1**	**882.3**	**6,858.2**
Off-balance sheet						
Contingent liabilities / guarantee credits	0.2	41.8	5.0	321.0	50.5	418.5
Irrevocable commitments	0.0	0.0	15.1	0.2	0.2	15.5
Add-ons and credit valuation adjustment	0.0	57.2	0.1	25.8	0.0	83.1
Total off-balance sheet	**0.2**	**99.0**	**20.2**	**347.0**	**50.7**	**517.1**
Total	**337.4**	**2,050.2**	**647.6**	**3,407.1**	**933.0**	**7,375.3**

The following table provides an overview of credit risks broken down by risk weighting categories according to Basel III. The allocation of the exposures to the risk weightings is based on the type and current rating of the counterparty or the issue rating for the financial investment.

Credit risks broken down by risk weighting categories according to Basel III

CHF MN	0%/2%	20%/35%	50%	75%	100%	150%	31.12.2017 TOTAL
Balance sheet							
Due from banks	966.2	689.6	2.9	0.0	0.0	0.0	1,658.7
Loans	2,782.6	179.2	0.0	36.2	309.0	3.5	3,310.5
Debt instruments AFS	654.6	541.7	456.1	0.0	120.6	0.0	1,773.0
Other assets	145.9	13.6	12.8	18.8	442.0	45.7	678.8
Positive replacement values after netting	95.8	0.0	0.0	0.0	6.1	0.0	101.9
Total balance sheet	**4,645.1**	**1,424.1**	**471.8**	**55.0**	**877.7**	**49.2**	**7,522.9**
Off-balance sheet							
Contingent liabilities/ guarantee credits	302.4	10.8	0.0	44.2	247.3	0.0	604.7
Irrevocable commitments	2.2	17.0	0.0	3.0	0.2	0.0	22.4
Add-ons and credit valuation adjustment	33.6	18.9	109.4	0.0	32.0	0.1	194.0
Total off-balance sheet	**338.2**	**46.7**	**109.4**	**47.2**	**279.5**	**0.1**	**821.1**
Total	**4,983.3**	**1,470.8**	**581.2**	**102.2**	**1,157.2**	**49.3**	**8,344.0**

CHF MN	0%/2%	20%/35%	50%	75%	100%	150%	31.12.2016 TOTAL
Balance sheet							
Due from banks	952.4	508.8	41.5	0.0	0.0	0.0	1,502.7
Loans	2,496.9	44.7	0.0	19.8	37.5	3.0	2,601.9
Debt instruments AFS	632.4	824.0	378.2	0.0	255.2	0.0	2,089.8
Other assets	93.1	13.3	27.8	0.0	401.1	64.2	599.5
Positive replacement values after netting	59.4	0.0	0.0	0.0	4.9	0.0	64.3
Total balance sheet	**4,234.2**	**1,390.8**	**447.5**	**19.8**	**698.7**	**67.2**	**6,858.2**
Off-balance sheet							
Contingent liabilities/ guarantee credits	116.3	44.3	0.0	31.8	226.1	0.0	418.5
Irrevocable commitments	0.0	15.1	0.0	0.0	0.4	0.0	15.5
Add-ons and credit valuation adjustment	14.3	9.7	33.9	0.6	24.6	0.0	83.1
Total off-balance sheet	**130.6**	**69.1**	**33.9**	**32.4**	**251.1**	**0.0**	**517.1**
Total	**4,364.8**	**1,459.9**	**481.4**	**52.2**	**949.8**	**67.2**	**7,375.3**

For the calculation of capital, Vontobel refers to the ratings of external rating agencies recognized by FINMA. It uses the ratings of Fitch, Moody's, S&P and Fedafin (public sector bodies only). If different ratings exist for a specific position, the allocation of the relevant rating is performed in accordance with the rules set out by the Basel Committee on Banking Supervision.

Credit risks based on external ratings, broken down by risk weighting categories

CHF MN		0%	20%	50%	100%	31.12.2017 150%
Counterparty	**Rating**					
Governments and central banks	with rating	654.6	9.1	0.0	0.0	0.0
	without rating	0.0	0.0	0.0	0.0	0.0
Public bodies	with rating	–	61.7	19.6	0.0	0.0
	without rating	–	0.0	0.0	0.0	0.0
Banks	with rating	–	927.3	251.9	0.0	0.0
	without rating	–	3.0	0.0	0.0	0.0
Corporates	with rating	–	290.5	309.7	676.0	0.0
	without rating	–	0.0	0.0	50.3	0.0
Total	**with rating**	**654.6**	**1,288.6**	**581.2**	**676.0**	**0.0**
	without rating	**0.0**	**3.0**	**0.0**	**50.3**	**0.0**
Total		**654.6**	**1,291.6**	**581.2**	**726.3**	**0.0**

CHF MN		0%	20%	50%	100%	31.12.2016 150%
Counterparty	**Rating**					
Governments and central banks	with rating	632.4	14.6	0.0	0.0	0.0
	without rating	0.0	0.0	0.0	0.0	0.0
Public bodies	with rating	–	117.7	0.0	0.0	0.0
	without rating	–	0.0	0.0	0.0	0.0
Banks	with rating	–	915.9	188.4	0.0	0.0
	without rating	–	3.0	0.0	0.0	0.0
Corporates	with rating	–	364.0	293.0	487.9	0.0
	without rating	–	0.0	0.0	46.8	0.0
Total	**with rating**	**632.4**	**1,412.2**	**481.4**	**487.9**	**0.0**
	without rating	**0.0**	**3.0**	**0.0**	**46.8**	**0.0**
Total		**632.4**	**1,415.2**	**481.4**	**534.7**	**0.0**

Loans extended against collateral, OTC derivatives, securities lending and borrowing transactions and repo transactions are secured primarily using securities as easily realizable collateral. The following table shows the credit risks broken down by collateral type in accordance with the comprehensive approach under Basel III with regulatory standard haircuts.

Credit risks broken down by credit risk mitigation methods

CHF MN	COVERED BY RECOGNIZED COLLATERAL	NOT COVERED BY RECOGNIZED COLLATERAL	31.12.2017 TOTAL
Balance sheet			
Due from banks	966.2	692.5	1,658.7
Loans	2,782.6	527.9	3,310.5
Debt instruments AFS	0.0	1,773.0	1,773.0
Other assets	145.9	532.9	678.8
Positive replacement values after netting	95.8	6.1	101.9
Total balance sheet	**3,990.5**	**3,532.4**	**7,522.9**
Off-balance sheet			
Contingent liabilities / guarantee credits	302.4	302.3	604.7
Irrevocable commitments	2.2	20.2	22.4
Add-ons and credit valuation adjustment	33.6	160.4	194.0
Total off-balance sheet	**338.2**	**482.9**	**821.1**
Total	**4,328.7**	**4,015.3**	**8,344.0**

CHF MN	COVERED BY RECOGNIZED COLLATERAL	NOT COVERED BY RECOGNIZED COLLATERAL	31.12.2016 TOTAL
Balance sheet			
Due from banks	952.4	550.3	1,502.7
Loans	2,496.9	105.0	2,601.9
Debt instruments AFS	0.0	2,089.8	2,089.8
Other assets	93.1	506.4	599.5
Positive replacement values after netting	59.4	4.9	64.3
Total balance sheet	**3,601.8**	**3,256.4**	**6,858.2**
Off-balance sheet			
Contingent liabilities / guarantee credits	116.3	302.2	418.5
Irrevocable commitments	0.0	15.5	15.5
Add-ons and credit valuation adjustment	14.3	68.8	83.1
Total off-balance sheet	**130.6**	**386.5**	**517.1**
Total	**3,732.4**	**3,642.9**	**7,375.3**

The above information on the mitigation of credit risks is based on the Basel III rules and thus represents the coverage ratios from a capital adequacy perspective. However, the disclosure of credit risk on page 142 provides a more appropriate basis for the assessment of the actual risk profile.

Reconciliation of total credit risks under Basel III with balance sheet positions

CHF MN	IFRS BOOK VALUE	BASEL III CREDIT EQUIVALENT BEFORE WEIGHTING	31.12.2017 DIFFERENCE	EXPLANATION OF DIFFERENCE BETWEEN IFRS AND BASEL III
Balance sheet				
Cash	6,287.9	0.0	–6,287.9	No credit risk resp. no capital requirement
Due from banks	1,658.7	1,658.7	0.0	
Cash collateral for securities borrowing agreements	8.5	0.0	–8.5	No credit risk resp. no capital requirement
Cash collateral for reverse-repurchase agreements	1,007.2	0.0	–1,007.2	No credit risk resp. no capital requirement
Loans	3,310.5	3,310.5	0.0	
Debt instruments AFS	1,773.0	1,773.0	0.0	
Other assets	678.8	678.8	0.0	
Positive replacement values before / after netting	243.9	101.9	–142.0	Gross IFRS book value, Basel III after netting
Total balance sheet	**14,968.5**	**7,522.9**	**–7,445.6**	
Off-balance sheet				
Contingent liabilities / guarantee credits	608.1	604.7	–3.4	Basel III conversion into credit equivalents
Irrevocable commitments	90.2	22.4	–67.8	Basel III conversion into credit equivalents
Add-ons and credit valuation adjustment	0.0	194.0	194.0	Basel III add-ons based on contract volumes of derivative instruments
Total off-balance sheet	**698.3**	**821.1**	**122.8**	
Total	**15,666.8**	**8,344.0**	**–7,322.8**	

CHF MN	IFRS BOOK VALUE	BASEL III CREDIT EQUIVALENT BEFORE WEIGHTING	31.12.2016 DIFFERENCE	EXPLANATION OF DIFFERENCE BETWEEN IFRS AND BASEL III
Balance sheet				
Cash	6,374.0	0.0	–6,374.0	No credit risk resp. no capital requirement
Due from banks	1,502.7	1,502.7	0.0	
Cash collateral for securities borrowing agreements	0.0	0.0	0.0	
Cash collateral for reverse-repurchase agreements	823.1	0.0	–823.1	No credit risk resp. no capital requirement
Loans	2,601.9	2,601.9	0.0	
Debt instruments AFS	2,089.8	2,089.8	0.0	
Other assets	599.5	599.5	0.0	
Positive replacement values before / after netting	172.3	64.3	–108.0	Gross IFRS book value, Basel III after netting
Total balance sheet	**14,163.3**	**6,858.2**	**–7,305.1**	
Off-balance sheet				
Contingent liabilities / guarantee credits	422.3	418.5	–3.8	Basel III conversion into credit equivalents
Irrevocable commitments	32.0	15.5	–16.5	Basel III conversion into credit equivalents
Add-ons and credit valuation adjustment	0.0	83.1	83.1	Basel III add-ons based on contract volumes of derivative instruments
Total off-balance sheet	**454.3**	**517.1**	**62.8**	
Total	**14,617.6**	**7,375.3**	**–7,242.3**	

The tables above show the differences between the total amounts reported in accordance with FINMA Circular 08 / 22 and the book values of the corresponding balance sheet and off-balance-sheet positions reported in accordance with IFRS.

When determining regulatory capital requirements, the balance sheet items “Trading portfolio assets” and “Other financial assets at fair value” are basically assigned to the trading book. This means that they do not entail any credit risks (but do entail a specific market risk) from a regulatory capital perspective and are therefore omitted from the tables shown above. A small number of items in the above-mentioned balance sheet positions are assigned to the banking book from a regulatory capital perspective. They are contained in the line item “Other assets”.

4. Maximum credit risk before and after credit risk mitigation

Maximum credit risk before and after credit risk mitigation

CHF MN	CREDIT RISK BEFORE CREDIT RISK MITIGATION	CREDIT RISK MITIGATION[1]	31.12.2017 CREDIT RISK AFTER CREDIT RISK MITIGATION
Positions with credit risks			
Cash[2]	6,287.9	0.0	6,287.9
Due from banks	1,658.7	966.2	692.5
Cash collateral for securities borrowing agreements	8.5	8.1	0.4
Cash collateral for reverse-repurchase agreements	1,007.2	1,007.2	0.0
Trading portfolio assets (debt instruments)	331.5	0.0	331.5
Positive replacement values	243.9	237.8	6.1
Other financial assets at fair value (debt instruments)	3,419.6	0.0	3,419.6
Loans	3,310.5	2,782.6	527.9
Financial investments (debt instruments AFS)	1,773.0	0.0	1,773.0
Other assets	444.5	162.1	282.4
Exposure from credit default swaps[3]	1,068.3	0.0	1,068.3
Off-balance-sheet positions	627.1	304.6	322.5
Total	**20,180.7**	**5,468.6**	**14,712.1**

CHF MN	CREDIT RISK BEFORE CREDIT RISK MITIGATION	CREDIT RISK MITIGATION[1]	31.12.2016 CREDIT RISK AFTER CREDIT RISK MITIGATION
Positions with credit risks			
Cash[2]	6,374.0	0.0	6,374.0
Due from banks	1,502.7	952.4	550.3
Cash collateral for securities borrowing agreements	0.0	0.0	0.0
Cash collateral for reverse-repurchase agreements	823.1	823.1	0.0
Trading portfolio assets (debt instruments)	592.7	0.0	592.7
Positive replacement values	172.3	167.4	4.9
Other financial assets at fair value (debt instruments)	2,230.3	0.0	2,230.3
Loans	2,601.9	2,496.9	105.0
Financial investments (debt instruments AFS)	2,089.8	0.0	2,089.8
Other assets	438.6	241.7	196.9
Exposure from credit default swaps[3]	1,707.0	0.0	1,707.0
Off-balance-sheet positions	434.0	116.3	317.7
Total	**18,966.4**	**4,797.8**	**14,168.6**

1 Credit risk mitigation is presented on the basis of Basel III regulations and encompasses netting agreements, securities collateral, cash collateral and mortgage collateral.
2 Bank notes and coins are included in the disclosure.
3 Default risks relating to the reference entities of credit default swaps where Vontobel acts as the protection seller. Any credit risk vis-à-vis the counterparty of the credit default swap is included in the balance sheet position “Positive replacement values”.

The above tables show the maximum credit risk arising from all balance sheet and off-balance sheet items and the forms of credit risk mitigation available.

The tables on the following page show a reconciliation of credit risks after credit risk mitigation for all balance sheet and off-balance sheet items with credit risks from a risk management perspective.

Positions with credit risk after credit risk mitigation according to the risk representation

CHF MN	DEBT INSTRUMENTS	DEMAND AND TIME DEPOSITS	OTHER FINANCIAL RECEIVABLES	31.12.2017 TOTAL
Cash[1]	0.0	6,287.9	0.0	6,287.9
Due from banks	0.0	692.5	0.0	692.5
Cash collateral for securities borrowing agreements	0.0	0.4	0.0	0.4
Cash collateral for reverse-repurchase agreements	0.0	0.0	0.0	0.0
Trading portfolio assets (debt instruments)	331.5	0.0	0.0	331.5
Positive replacement values	0.0	0.0	6.1	6.1
Other financial assets at fair value (debt instruments)	3,419.6	0.0	0.0	3,419.6
Loans	0.0	527.9	0.0	527.9
Financial investments (debt instruments AFS)	1,773.0	0.0	0.0	1,773.0
Other assets	37.4	6.6	238.4	282.4
Exposure from credit default swaps	1,068.3	0.0	0.0	1,068.3
Off-balance-sheet positions	0.0	0.0	322.5	322.5
Total positions with credit risk after credit risk mitigation	**6,629.8**	**7,515.3**	**567.0**	**14,712.1**
Unsecured credit risk from private and institutional investment clients[2]	0.0	139.6	0.0	139.6
Unsecured credit risk from professional counterparties and issuer risks[3]	5,716.1	357.0	269.7	6,342.8
Total according to tables "Credit risk"	**5,716.1**	**496.6**	**269.7**	**6,482.4**
Difference	**913.7**	**7,018.7**	**297.3**	**8,229.7**

CHF MN	DEBT INSTRUMENTS	DEMAND AND TIME DEPOSITS	OTHER FINANCIAL RECEIVABLES	31.12.2016 TOTAL
Cash[1]	0.0	6,374.0	0.0	6,374.0
Due from banks	0.0	550.3	0.0	550.3
Cash collateral for securities borrowing agreements	0.0	0.0	0.0	0.0
Cash collateral for reverse-repurchase agreements	0.0	0.0	0.0	0.0
Trading portfolio assets (debt instruments)	592.7	0.0	0.0	592.7
Positive replacement values	0.0	0.0	4.9	4.9
Other financial assets at fair value (debt instruments)	2,230.3	0.0	0.0	2,230.3
Loans	0.0	105.0	0.0	105.0
Financial investments (debt instruments AFS)	2,089.8	0.0	0.0	2,089.8
Other assets	58.6	4.8	133.5	196.9
Exposure from credit default swaps	1,707.0	0.0	0.0	1,707.0
Off-balance-sheet positions	0.0	0.0	317.7	317.7
Total positions with credit risk after credit risk mitigation	**6,678.4**	**7,034.1**	**456.1**	**14,168.6**
Unsecured credit risk from private and institutional investment clients[2]	0.0	106.3	0.0	106.3
Unsecured credit risk from professional counterparties and issuer risks[3]	5,563.0	443.7	251.4	6,258.1
Total according to tables "Credit risk"	**5,563.0**	**550.0**	**251.4**	**6,364.4**
Difference	**1,115.4**	**6,484.1**	**204.7**	**7,804.2**

1 Bank notes and coins are included in the disclosure.
2 Paragraph 5.2 of the notes on risk management and risk control
3 Paragraph 5.3 of the notes on risk management and risk control

The difference between the credit risk after credit risk mitigation from an accounting perspective and from a risk management perspective is attributable to the following factors:

- The risk figures take account of haircuts (add-on factors on the credit exposure and discount factors on collateral).
- The risk figures take account of add-ons for potential credit exposures.
- The trade date principle basically applies for accounting purposes, while the value date principle is used for risk management purposes. This means, for example, that if securities are sold but the transaction is only settled after the balance sheet date in accordance with the principle of "delivery versus payment", the sales price represents a receivable from the counterparty from an accounting perspective, while no credit risk arises from a risk management perspective.
- Differences exist between the recognition of credit risk mitigation from a regulatory perspective and from a risk management perspective.

Details on consolidated income statement

1 Net interest income

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Interest income from banks and customers	39.1	29.6	9.5	32
Interest income from securities borrowing and reverse-repurchase agreements	7.1	4.7	2.4	51
Interest income from financial liabilities	4.5	2.9	1.6	55
Total interest income from financial instruments at amortized cost	**50.7**	**37.2**	**13.5**	**36**
Dividend income from financial assets available-for-sale	3.6	10.9	–7.3	–67
Interest income from financial assets available-for-sale	28.6	27.7	0.9	3
Total interest and dividend income from financial assets at fair value	**32.2**	**38.6**	**–6.4**	**–17**
Total interest income	**82.9**	**75.8**	**7.1**	**9**
Interest expense from securities lending and repurchase agreements	2.0	1.3	0.7	54
Interest expense from other financial liabilities at amortized cost	5.3	1.7	3.6	212
Interest expense from financial assets	6.9	5.1	1.8	35
Total interest expense from financial instruments at amortized cost	**14.2**	**8.1**	**6.1**	**75**
Total	**68.7**	**67.7**	**1.0**	**1**

2 Net fee and commission income

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Brokerage fees	111.8	109.3	2.5	2
Custody fees	164.8	149.5	15.3	10
Advisory and management fees	575.1	546.2	28.9	5
Issues and corporate finance	13.5	4.7	8.8	187
Other commission income from securities and investment transactions	31.2	18.4	12.8	70
Total fee and commission income from securities and investment transactions	**896.4**	**828.1**	**68.3**	**8**
Other fee and commission income	**6.1**	**3.8**	**2.3**	**61**
Brokerage fees	19.2	17.2	2.0	12
Other commission expense	190.4	166.0	24.4	15
Total commission expense	**209.6**	**183.2**	**26.4**	**14**
Total	**692.9**	**648.7**	**44.2**	**7**

The presentation was changed in the current year and the prior year was adapted accordingly. Fiduciary transactions (31.12.2017: CHF 1.5 mn; 31.12.2016: CHF 0.9 mn) are now shown in the item “Other commission income from securities and investment transactions” and commission income from lending activities (31.12.2017: CHF 1.1 mn; 31.12.2016: CHF 1.0 mn) is now shown in the item “Other fee and commission income”.

3 Trading income

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Securities	889.2	670.2	219.0	33
Other financial instruments at fair value	–627.3	–458.7	–168.6	
Forex and precious metals	26.9	38.5	–11.6	–30
Total	**288.8**	**250.0**	**38.8**	**16**

Trading income as of 31.12.2017 includes income of CHF 2.5 mn (31.12.2016: CHF –3.6 mn), which is attributable to changes in fair value due to a change in Vontobel's own credit risk. Of the total impact, CHF –0.8 mn was realized as of 31.12.2017 (31.12.2016: CHF –1.4 mn), while the remaining CHF 3.3 mn (31.12.2016: CHF –2.2 mn) comprises unrealized income. The changes in own credit risk resulted in cumulative income of CHF 3.3 mn, of which CHF 3.9 mn was realized and CHF –0.6 mn was unrealized. Cumulative unrealized income is shown in the balance sheet item "Other financial liabilities at fair value" and will be completely reversed over the term of the relevant instruments provided they are not redeemed or repurchased prior to their contractual maturity.

4 Comprehensive income from financial instruments before tax

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Financial instruments held-for-trading	889.2	670.2	219.0	33
Other financial instruments at fair value	–627.3	–458.7	–168.6	
Forex and precious metals	26.9	38.5	–11.6	–30
Trading income	**288.8**	**250.0**	**38.8**	**16**
Financial instruments available-for-sale	38.2	149.0	–110.8	–74
Loans and receivables	39.2	29.2	10.0	34
Financial liabilities measured at amortized cost	–2.8	–0.1	–2.7	
Total other financial instruments	**74.6**	**178.1**	**–103.5**	**–58**
Total financial instruments income statement	**363.4**	**428.1**	**–64.7**	**–15**
Unrealized gains / (losses) on available-for-sale financial instruments, recorded in other comprehensive income	–3.3	–27.8	24.5	
(Gains) / losses on available-for-sale financial instruments, transferred from other comprehensive income to the income statement	–4.5	–106.2	101.7	
Unrealized gains / (losses) on cash flow hedges, recorded in other comprehensive income	–0.5	–0.3	–0.2	
(Gains) / losses on cash flow hedges, transferred from other comprehensive income to the income statement	0.0	0.0	0.0	
Comprehensive income before tax	**355.1**	**293.8**	**61.3**	**21**

Comprehensive income includes interest income, dividend income, net realized and unrealized gains and currency translation adjustments, as well as impairment losses and reversals.

5 Other income

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Real estate income		0.0	0.0	0.0	
Income from the sale of property and equipment		0.0	–0.1	0.1	
Income from the sale of financial instruments available-for-sale	6	6.0	110.8	–104.8	–95
Impairments of financial instruments available-for-sale		–0.1	–0.4	0.3	
Income from investments in associates	6	0.7	0.2	0.5	250
Other income		3.3	4.2	–0.9	–21
Total		**9.9**	**114.7**	**–104.8**	**–91**

6 Income from the sale of financial investments available-for-sale

Income from the sale of financial investments available-for-sale

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Debt instruments	5.7	6.5	–0.8	–12
Equity instruments [1]	0.3	104.3	–104.0	–100
Total	**6.0**	**110.8**	**–104.8**	**–95**

1 Financial year 2016: This item includes the gain of CHF 102.0 mn from the sale of the participation in Helvetia Holding AG in November 2016.

Income from investments in associates

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Share of profit	0.7	0.2	0.5	250
Impairments	0.0	0.0	0.0	
Total	**0.7**	**0.2**	**0.5**	**250**

7 Personnel expense

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Salaries and bonuses	445.4	412.8	32.6	8
Pension and other employee benefit plans [1]	35.8	22.2	13.6	61
Other social contributions	36.8	33.0	3.8	12
Other personnel expense	14.6	16.8	–2.2	–13
Total	**532.6**	**484.8**	**47.8**	**10**

Personnel expense includes the expense for share-based compensation of CHF 32.6 mn, of which CHF 25.6 mn relates to performance shares and CHF 7.0 mn to the awarding of bonus shares at preferential terms and CHF 0.0 mn to other share-based compensation (previous year: performance shares CHF 24.0 mn, bonus shares CHF 4.7 mn, other CHF –8.9 mn; total CHF 19.8 mn) as well as deferred compensation in cash of CHF 2.4 mn. (previous year: CHF –1.7 mn.).

1 Financial year 2016: Expense from pension and other employee benefit plans includes the impacts of changes to Swiss pension fund regulations in the amount of CHF 11.1 mn (primarily the reduction of conversion rates).

8 General expense

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Occupancy expense	33.0	35.9	–2.9	–8
IT, telecommunications and other equipment	71.7	64.6	7.1	11
Travel and representation, public relations, marketing	43.1	36.2	6.9	19
Consulting and audit fees	26.8	24.3	2.5	10
Other general expense	30.4	28.7	1.7	6
Total	**205.0**	**189.7**	**15.3**	**8**

9 Depreciation of property, equipment and intangible assets

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Depreciation of property and equipment	51.1	53.3	–2.2	–4
Amortization of other intangible assets	9.3	7.2	2.1	29
Impairments of property and equipment	0.6	1.8	–1.2	–67
Total	**61.0**	**62.3**	**–1.3**	**–2**

10 Valuation adjustments, provisions and losses

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Impairments on credit risks	0.1	0.1	0.0	0
Decrease of allowances for credit losses	0.0	–0.1	0.1	
Increase in provisions	6.6	17.9	–11.3	–63
Release of provisions	–0.2	–1.6	1.4	
Recoveries	0.0	0.1	–0.1	–100
Other	–4.1	6.6	–10.7	–162
Total	**2.4**	**23.0**	**–20.6**	**–90**

11 Taxes

Tax expense

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Statement of tax expense				
Explanation of the relationship between tax expense and net profit before taxes:				
Current income taxes	43.3	54.6	–11.3	–21
Deferred income taxes	7.0	2.3	4.7	204
Total	**50.3**	**56.9**	**–6.6**	**–12**
Profit before taxes	259.3	321.3	–62.0	–19
Expected income tax rate of 22%[1]	57.0	70.7	–13.7	–19
Explanations for higher (lower) tax expense:				
Applicable tax rates differing from expected rate	–0.4	–12.7	12.3	
Tax losses not taken into account	0.7	2.0	–1.3	–65
Appropriation of non-capitalized deferred taxes on loss carryforwards	0.0	0.0	0.0	
Newly recognized deferred tax assets	0.0	–0.4	0.4	
Other income with no impact on taxes	–1.6	–2.0	0.4	
Income tax unrelated to accounting period	0.8	1.6	–0.8	–50
Participation relief granted on dividend income	–8.8	–5.0	–3.8	
Other impacts	2.6	2.7	–0.1	–4
Total	**50.3**	**56.9**	**–6.6**	**–12**
Effective tax rate in %	19.4	17.7		

1 The anticipated income tax rate of 22% corresponds to the average tax rate in Switzerland.

Deferred taxes

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Tax loss carryforwards	17.2	20.5	–3.3	–16
Other	2.8	3.9	–1.1	–28
Total deferred tax assets	**20.0**	**24.4**	**–4.4**	**–18**
Property and equipment	0.3	0.5	–0.2	–40
Intangible assets	9.3	10.8	–1.5	–14
Investments in associates	0.2	0.2	0.0	0
Other provisions	22.3	22.3	0.0	0
Unrealized gains on available-for-sale financial investments	3.1	3.9	–0.8	–21
Other	6.4	4.7	1.7	36
Total deferred tax liabilities	**41.6**	**42.4**	**–0.8**	**–2**

Changes in deferred taxes (net)

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Balance at the beginning of the year	18.0	22.6	–4.6	–20
Changes affecting the income statement	3.0	–0.2	3.2	
Changes not affecting the income statement	0.8	6.2	–5.4	–87
Change in scope of consolidation	0.0	–10.3	10.3	
Translation adjustments	–0.2	–0.3	0.1	
Total as at the balance sheet date	**21.6**	**18.0**	**3.6**	**20**

Unrecognized tax loss carryforwards expire as follows:

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Within 1 year	1.8	0.7	1.1	157
From 1 to 5 years	3.4	5.4	–2.0	–37
After 5 years	63.2	58.8	4.4	7
Total	**68.4**	**64.9**	**3.5**	**5**

Vontobel Holding AG and its subsidiaries are liable for income tax in most countries. The current tax assets and current tax liabilities reported as of the balance sheet date, as well as the resulting current tax expense for the period under review, are based partly on estimates and assumptions and may therefore differ from the amounts determined by the tax authorities in the future. In certain cases where complex tax questions arise, external tax specialists are consulted or preliminary clarification is obtained from the tax authorities.

In the case of deferred taxes, the level of recognized tax assets depends on assumptions regarding available future taxable profits that are eligible for offset. The determination of deferred tax assets is essentially based on budget figures and mid-term planning. If a company has posted a series of financial losses in the recent past, the deferred tax assets are only recognized to the extent that the company has sufficient taxable temporary differences or has convincing other evidence that sufficient taxable profits will be available in future periods. Recognized deferred tax assets for loss carryforwards eligible for offset amounted to CHF 17.2 mn (31.12.2017) or CHF 20.5 mn (31.12.2016). Unrecognized loss carryforwards in the amount of CHF 68.4 mn (31.12.2017) or CHF 64.9 mn (31.12.2016) are subject to tax rates of 16% to 33% (31.12.2017) or 16% to 33% (31.12.2016). If recognized in full, the deferred tax assets for loss carryforwards eligible for offset would total CHF 35.0 mn (31.12.2017) or CHF 37.5 mn (31.12.2016).

12 Tax effects to other comprehensive income

CHF MN	31.12.2017 AMOUNT BEFORE TAX	TAX YIELD / TAX EXPENSE	AMOUNT NET OF TAX
Translation differences during the reporting period	1.6	0.0	1.6
Translation differences transferred to the income statement	0.0	0.0	0.0
Income from available-for-sale financial instruments during the reporting period	–3.3	0.6	–2.7
Income from available-for-sale financial instruments transferred to the income statement	–4.5	1.0	–3.5
Income from cash flow hedges during the reporting period	–0.6	0.1	–0.5
Income from cash flow hedges transferred to the income statement	0.0	0.0	0.0
Defined benefit pension plans	12.2	–2.6	9.6
Total	**5.4**	**–0.9**	**4.5**

CHF MN	31.12.2016 AMOUNT BEFORE TAX	TAX YIELD / TAX EXPENSE	AMOUNT NET OF TAX
Translation differences during the reporting period	–6.2	0.0	–6.2
Translation differences transferred to the income statement	0.0	0.0	0.0
Income from available-for-sale financial instruments during the reporting period	–27.8	1.7	–26.1
Income from available-for-sale financial instruments transferred to the income statement	–106.2	9.2	–97.0
Income from cash flow hedges during the reporting period	–0.3	0.0	–0.3
Income from cash flow hedges transferred to the income statement	0.0	0.0	0.0
Defined benefit pension plans	77.8	–17.2	60.6
Total	**–62.7**	**–6.3**	**–69.0**

13 Earnings per share

	31.12.2017	31.12.2016	CHANGE TO 31.12.2016	IN %
Net profit (CHF mn)[1]	202.4	259.8	–57.4	–22
Weighted average number of shares issued	56,875,000	56,875,000	0	0
Less weighted average number of treasury shares	1,498,741	1,792,737	–293,996	–16
Weighted average number of shares outstanding (undiluted)	55,376,259	55,082,263	293,996	1
Dilution effect number of shares[2]	1,443,430	1,548,877	–105,447	–7
Weighted average number of shares outstanding (diluted)	56,819,689	56,631,140	188,549	0
Basic earnings per share (in CHF)	3.65	4.72	–1.07	–23
Diluted earnings per share (in CHF)	3.56	4.59	–1.03	–22

1 The net profit attributable to the shareholders of Vontobel Holding AG constitutes the basis for the calculation of undiluted as well as diluted earnings per share.
2 The dilution effect is primarily the result of employee share-based benefit programs. The dilution effect from shares that will have to be issued if outstanding in-the-money options are exercised is insignificant. Shares that will have to be issued if outstanding out-of-the-money options are exercised do not have any dilution effect in the financial year but could dilute future earnings per share. The potential dilution effect is insignificant.

Details on consolidated balance sheet

14 Financial instruments at fair value through profit and loss

Trading portfolio assets

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Debt instruments				
Listed	331.5	478.6	–147.1	–31
Unlisted	0.0	114.1	–114.1	–100
Total	**331.5**	**592.7**	**–261.2**	**–44**
Equity instruments				
Listed	2,651.5	1,341.8	1,309.7	98
Unlisted	0.4	0.0	0.4	
Total	**2,651.9**	**1,341.8**	**1,310.1**	**98**
Units in investment funds				
Listed	166.1	64.6	101.5	157
Unlisted	1.1	37.5	–36.4	–97
Total	**167.2**	**102.1**	**65.1**	**64**
Precious metals and cryptocurrencies	**840.6**	**479.2**	**361.4**	**75**
Total	**3,991.2**	**2,515.8**	**1,475.4**	**59**
of which lent or delivered as collateral	*197.6*	*114.8*	*82.8*	*72*

Trading portfolio liabilities

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Debt instruments				
Listed	106.0	71.6	34.4	48
Unlisted	0.0	0.0	0.0	
Total	**106.0**	**71.6**	**34.4**	**48**
Equity instruments				
Listed	52.2	28.1	24.1	86
Unlisted	0.0	0.0	0.0	
Total	**52.2**	**28.1**	**24.1**	**86**
Total	**158.2**	**99.7**	**58.5**	**59**

Open derivative instruments

CHF MN			31.12.2017			31.12.2016
	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME	POSITIVE REPLACEMENT VALUES	NEGATIVE REPLACEMENT VALUES	CONTRACT VOLUME
Debt instruments						
Forward contracts incl. FRAs				–	–	
Swaps	21.6	30.9	3,620.2	25.8	41.6	2,997.2
Futures			14.5	0.1	0.0	9.4
Options (OTC) and warrants	2.7	0.9	1.8	4.3	1.3	70.8
Options (exchange traded)	0.7		2.7	–	–	
Total	**25.0**	**31.8**	**3,639.2**	**30.2**	**42.9**	**3,077.4**
Foreign currency						
Forward contracts	7.2	6.9	933.4	8.3	10.3	829.3
Swaps	106.9	48.4	7,032.8	37.5	46.0	4,402.9
Futures			1.0	–	–	
Options (OTC) and warrants	5.9	13.0	1,078.6	4.4	11.4	879.4
Options (exchange traded)	0.1		0.9	0.1	0.0	12.6
Total	**120.1**	**68.3**	**9,046.7**	**50.3**	**67.7**	**6,124.2**
Precious metals and cryptocurrencies						
Forward contracts			0.1	0.0	0.0	3.8
Swaps	0.6	0.8	146.6	10.5	9.8	187.8
Futures			115.8	0.0	0.0	68.0
Options (OTC) and warrants	3.1	34.3	529.6	4.4	19.3	940.8
Options (exchange traded)	0.1		5.9	–	–	
Total	**3.8**	**35.1**	**798.0**	**14.9**	**29.1**	**1,200.4**
Equities / indices						
Forward contracts				–	–	
Swaps	25.8	35.1	1,671.5	11.4	39.5	1,041.6
Futures			838.1	0.0	0.0	231.9
Options (OTC) and warrants	25.6	474.6	7,086.6	29.4	290.9	4,243.5
Options (exchange traded)	32.3	47.9	3,172.4	21.0	18.1	1,615.3
Total	**83.7**	**557.6**	**12,768.6**	**61.8**	**348.5**	**7,132.3**
Credit derivatives						
Credit default swaps	11.0	7.6	1,113.8	15.1	8.2	1,745.2
Total	**11.0**	**7.6**	**1,113.8**	**15.1**	**8.2**	**1,745.2**
Other						
Forward contracts				–	–	
Futures			115.5	0.0	0.0	90.4
Options (OTC) and warrants	0.2	25.2	67.9	0.0	19.0	166.2
Options (exchange traded)	0.1		0.7	–	–	
Total	**0.3**	**25.2**	**184.1**	**0.0**	**19.0**	**256.6**
Total	**243.9**	**725.6**	**27,550.4**	**172.3**	**515.4**	**19,536.1**

The positive and negative replacement values relate to trading instruments with the exception of the instruments referred to in note 35 “Hedge accounting”.

Other financial assets at fair value through profit and loss

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Debt instruments				
Listed	2,762.2	2,016.3	745.9	37
Unlisted	657.5	214.0	443.5	207
Total	**3,419.7**	**2,230.3**	**1,189.4**	**53**
Units in investment funds				
Unlisted	47.5	57.5	–10.0	–17
Total	**47.5**	**57.5**	**–10.0**	**–17**
Structured products	**23.7**	**5.6**	**18.1**	**323**
Total	**3,490.9**	**2,293.4**	**1,197.5**	**52**
of which lent or delivered as collateral	*236.0*	*112.8*	*123.2*	*109*

Other financial liabilities at fair value through profit and loss

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Structured products				
Listed	4,951.8	4,129.7	822.1	20
Unlisted	3,499.5	2,225.1	1,274.4	57
Total	**8,451.3**	**6,354.8**	**2,096.5**	**33**

15 Loans

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Mortgages	235.9	56.6	179.3	317
Other accounts receivable	3,093.1	2,561.8	531.3	21
Less allowances for credit risks	–18.5	–16.5	–2.0	
Total	**3,310.5**	**2,601.9**	**708.6**	**27**
Allowances for credit risks				
Balance at the beginning of the year	–16.5	–15.1	–1.4	
Utilization in conformity with designated purpose	0.6	0.0	0.6	
Doubtful interest income [1]	–1.9	–1.9	0.0	0
(Increase)/decrease recognized in the income statement, net	–0.7	0.5	–1.2	–240
Change in scope of consolidation	0.0	0.0	0.0	
Allowances as at the balance sheet date	**–18.5**	**–16.5**	**–2.0**	
Impaired loans				
Impaired loans	41.2	39.2	2.0	5
Estimated proceeds of liquidating collateral	14.5	14.5	0.0	0
Impaired loans, net	**26.7**	**24.7**	**2.0**	**8**
Allowance for credit losses related to impaired loans	–18.5	–16.5	–2.0	

1 Interest of CHF 1.9 mn (previous year CHF 1.9 mn) on non-performing loans that had not yet been received was capitalized.

16 Financial investments

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Carried at fair value ("available-for-sale")				
Debt instruments				
Listed	1,773.0	2,089.8	–316.8	–15
Unlisted	0.0	0.0	0.0	
Total	**1,773.0**	**2,089.8**	**–316.8**	**–15**
Equity instruments and other participations				
Listed	0.2	0.2	0.0	0
Unlisted	14.8	14.9	–0.1	–1
Total	**15.0**	**15.1**	**–0.1**	**–1**
Units in investment funds				
Listed	0.0	0.8	–0.8	–100
Unlisted	0.9	5.6	–4.7	–84
Total	**0.9**	**6.4**	**–5.5**	**–86**
Total financial investments carried at fair value ("available-for-sale")	**1,788.9**	**2,111.3**	**–322.4**	**–15**
of which lent or delivered as collateral	*0.0*	*0.0*	*0.0*	

17 Investments in associates

Investments in associates

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Balance at the beginning of the year	0.6	0.5	0.1	20
Decreases	0.0	0.0	0.0	
Equity income	0.7	0.2	0.5	250
Dividends paid	–0.4	–0.1	–0.3	
Translation differences	0.0	0.0	0.0	
Total as at the balance sheet date	**0.9**	**0.6**	**0.3**	**50**

Subsidiary consolidated using the equity method

	DOMICILE	ACTIVITY	CURRENCY	SHARE CAPITAL MN	INTEREST HELD IN % 31.12.2017	INTEREST HELD IN % 31.12.2016
Deutsche Börse Commodities GmbH	Frankfurt	Issues	EUR	1.0	16	16

18 Minority interests

The only minority interests originate from the acquisition of TwentyFour Asset Management LLP. These minority interests are held by several partners in TwentyFour Asset Management LLP. Under the terms of the agreement, Vontobel can acquire further interests in TwentyFour Asset Management LLP from partners that are willing to sell their interests or from parties that cease to be partners of TwentyFour Asset Management LLP. Vontobel will acquire the then remaining minority interests in two half tranches in 2021 and 2023, whereby Vontobel has the right to already acquire the second tranche in 2021. In terms of the acquisition of minority interests, Vontobel recognizes a liability corresponding to the estimated acquisition price as a charge against minority interests and (if the liability exceeds the minority interests) as a charge against capital reserves. As of 31.12.2017 and 31.12.2016, the liability totalled CHF 57.4 mn and CHF 50.3 mn (please refer to note 32 "Fair value of financial instruments" for information on the measurement of the liability). Changes in the liability are recognized in shareholders' equity with the exception of a minor compensation component. A share of profits or losses continues to be allocated to minority interests in the income statement and the statement of comprehensive income.

The following tables provide a summary of key financial information and the impacts of TwentyFour Asset Management on the consolidated financial statements:

Balance sheet

CHF MN	31.12.2017	31.12.2016
Assets		
Goodwill	68.9	65.6
Client relationships	8.5	11.5
Brand	0.3	0.4
Other assets	25.2	19.6
Total assets	**102.9**	**97.1**
Liabilities		
Liabilities	12.0	8.7
Equity	90.9	88.4
of which minority interests [1]	*9.2*	*9.7*
Total liabilities	**102.9**	**97.1**

1 In the consolidated balance sheet, shareholders' equity attributable to minority interests is derecognized due to the obligation to acquire the minority interests.

Comprehensive income

CHF MN	31.12.2017	31.12.2016
Operating income	38.4	30.1
Profit, net of tax	13.6	9.4
of which minority interests	*6.6*	*4.6*
Comprehensive income	14.7	5.1
of which minority interests	*7.0*	*2.9*

Further financial information

CHF MN	31.12.2017	31.12.2016
Cash flow from operating activities	20.4	14.4
Dividends paid to holders of minority interests	7.8	5.2
Minority interest in%	40	40

19 Property and equipment

CHF MN	BANK BUILDINGS	IT SYSTEMS	SOFTWARE	SOFTWARE IN DEVELOPMENT	OTHER FIXED ASSETS	TOTAL FIXED ASSETS
Acquisition cost						
Balance as of 01.01.2016	1.7	16.5	271.3	6.8	78.4	374.7
Additions	0.0	4.4	22.9	1.0	13.8	42.1
Disposals	0.0	–2.0	–37.7	–0.3	–0.8	–40.8
Change in scope of consolidation	0.0	0.0	0.9	0.0	0.1	1.0
Translation differences	0.0	0.0	0.0	0.0	–0.1	–0.1
Balance as of 31.12.2016	1.7	18.9	257.4	7.5	91.4	376.9
Additions	0.0	11.9	40.4	0.2	5.2	57.7
Disposals	0.0	–6.5	–57.1	–0.6	–2.4	–66.6
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Reclassification	0.0	0.0	–2.1	0.0	–1.1	–3.2
Translation differences	0.0	–0.1	0.0	0.0	0.0	–0.1
Balance as of 31.12.2017	**1.7**	**24.2**	**238.6**	**7.1**	**93.1**	**364.7**
Cumulative depreciation						
Balance as of 01.01.2016	–0.7	–8.7	–164.3	–0.3	–34.8	–208.8
Depreciation	–0.1	–5.5	–38.8	0.0	–8.9	–53.3
Impairment losses	0.0	0.0	–0.8	–0.7	–0.3	–1.8
Reversals	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	2.0	37.7	0.3	0.8	40.8
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Translation differences	0.0	0.0	0.0	0.0	0.1	0.1
Balance as of 31.12.2016	–0.8	–12.2	–166.2	–0.7	–43.1	–223.0
Depreciation	–0.1	–5.6	–35.8	0.0	–9.6	–51.1
Impairment losses	0.0	0.0	–0.6	0.0	0.0	–0.6
Reversals	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	6.5	57.1	0.6	2.4	66.6
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Reclassification	0.0	0.0	2.0	0.0	1.1	3.1
Translation differences	0.0	0.1	0.0	0.0	–0.1	0.0
Balance as of 31.12.2017	**–0.9**	**–11.2**	**–143.5**	**–0.1**	**–49.3**	**–205.0**
Net carrying values 31.12.2016	0.9	6.7	91.2	6.8	48.3	153.9
Net carrying values 31.12.2017	**0.8**	**13.0**	**95.1**	**7.0**	**43.8**	**159.7**

20 Goodwill and other intangible assets

Goodwill and other intangible assets

CHF MN	GOODWILL	OTHER INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS
Acquisition cost			
Balance as of 01.01.2016	187.9	51.3	239.2
Additions	0.0	0.0	0.0
Disposals	0.0	0.0	0.0
Change in scope of consolidation	46.9	33.4	80.3
Translation differences	–11.5	–3.1	–14.6
Balance as of 31.12.2016	223.3	81.6	304.9
Additions	0.2	17.4	17.6
Disposals	0.0	0.0	0.0
Change in scope of consolidation	0.0	0.0	0.0
Translation differences	3.3	0.9	4.2
Balance as of 31.12.2017	**226.8**	**99.9**	**326.7**
Cumulative depreciation			
Balance as of 01.01.2016	0.0	–19.4	–19.4
Amortization		–7.2	–7.2
Impairment losses	0.0	0.0	0.0
Reversals		0.0	0.0
Disposals	0.0	0.0	0.0
Change in scope of consolidation	0.0	0.0	0.0
Translation differences	0.0	0.7	0.7
Balance as of 31.12.2016	0.0	–25.9	–25.9
Amortization		–9.3	–9.3
Impairment losses	0.0	0.0	0.0
Reversals		0.0	0.0
Disposals	0.0	0.0	0.0
Change in scope of consolidation	0.0	0.0	0.0
Translation differences	0.0	–0.4	–0.4
Balance as of 31.12.2017	**0.0**	**–35.6**	**–35.6**
Net carrying values 31.12.2016	223.3	55.7	279.0
Net carrying values 31.12.2017	**226.8**	**64.3**	**291.1**

The goodwill resulting from a business combination is recognized as an asset in the balance sheet and assigned to one or more cash-generating units. The following organizational units represent the lowest level at which the goodwill allocated to them is monitored for internal management purposes:

Goodwill positions of each organizational unit

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Wealth Management division	45.7	45.5	0.2	0
Francophone & Middle East business unit	15.6	15.6	0.0	0
Italy business unit	6.2	6.2	0.0	0
Asset Management division	63.6	63.1	0.5	1
Fixed Income business unit	60.7	57.9	2.8	5
Multi Asset business unit	26.3	26.3	0.0	0
Vescore business unit	8.7	8.7	0.0	0
Total	**226.8**	**223.3**	**3.5**	**2**

The above goodwill positions are subject to an annual impairment test, which is conducted in the third quarter of each year. If events or a change of circumstances indicate a possible impairment, the test is carried out more frequently to determine whether the book value of the relevant organizational unit exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the book value of the organizational unit exceeds the recoverable amount, a goodwill impairment is recorded. Reversals of impairments are not recorded. This also applies if an impairment recorded in the first half of the year is partly or completely offset by a reversal of impairment in the second half of the year.

When conducting an impairment test, Vontobel begins by comparing the book value of the organizational unit with its fair value less costs to sell. Assets under management are a key factor that is considered in the case of all the organizational units that are assessed because it has a significant impact on their future earnings potential. The implicit multiplier for assets under management is calculated on the basis of the market capitalization of companies engaging in similar business activities, less reported shareholders' equity. This implicit multiplier is adjusted to take account of the difference between the gross margins of the organizational unit under review and the peer group as well as other factors that are relevant for the impairment test. If the book value of the organizational unit exceeds the fair value calculated using the adjusted multiplier less costs to sell, the book value is subsequently compared with the value in use of the organizational unit.

Multiplier

IN %	31.12.2017	31.12.2016
Wealth Management division	2.3	1.7
Francophone & Middle East business unit	3.5	3.0
Italy business unit	3.2	2.5
Asset Management division	0.9	0.9
Fixed Income business unit	0.6	0.6
Multi Asset business unit	0.6	0.6
Vescore business unit	0.9	0.3

The fair value calculated using these multipliers less costs to sell exceeded the book value of all organizational units both in the year under review and in the previous year. Management determined that no reasonably possible change in the assumptions would have resulted in the book value of an organizational unit significantly exceeding its recoverable amount.

All the input parameters that are relevant for the valuation can be observed. In the case of the fair value less costs to sell of the organizational units tested, this is a level 2 valuation.

21 Other assets

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Accrued income and prepaid expenses		152.7	155.9	–3.2	–2
Current tax assets		26.8	26.1	0.7	3
Deferred tax assets	11	20.0	24.4	–4.4	–18
Value-added tax and other tax receivables		143.0	54.7	88.3	161
Defined benefit pension asset	41	29.9	22.1	7.8	35
Settlement and clearing accounts		1.4	2.2	–0.8	–36
Open settlement positions		162.1	241.7	–79.6	–33
Other receivables		39.9	37.2	2.7	7
Assets held for sale	40	86.6	0.0	86.6	
Other		1.9	1.6	0.3	19
Total		**664.3**	**565.9**	**98.4**	**17**

22 Securities lending and borrowing operations and securities repurchase and reverse-repurchase transactions

	31.12.2017 CASH COLLATERAL FOR		31.12.2016 CASH COLLATERAL FOR	
CHF MN	SECURITIES BORROWING AGREEMENTS	REVERSE-REPURCHASE AGREEMENTS	SECURITIES BORROWING AGREEMENTS	REVERSE-REPURCHASE AGREEMENTS
Due from banks	8.5	1,007.2	0.0	823.1
Loans	0.0	0.0	0.0	0.0
Total balance sheet positions cash collateral	**8.5**	**1,007.2**	**0.0**	**823.1**
Other financial instruments at fair value	0.0	0.0	0.0	0.0
Total	**8.5**	**1,007.2**	**0.0**	**823.1**

	31.12.2017 CASH COLLATERAL FROM		31.12.2016 CASH COLLATERAL FROM	
CHF MN	SECURITIES LENDING AGREEMENTS	REPURCHASE AGREEMENTS	SECURITIES LENDING AGREEMENTS	REPURCHASE AGREEMENTS
Due to banks	0.0	0.0	0.0	0.0
Due to customers	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**0.0**	**0.0**

23 Transferred and pledged assets

	31.12.2017	31.12.2016	CHANGE TO 31.12.2016	
	CHF MN	CHF MN	CHF MN	IN %
Securities lending, securities borrowing and repurchase transactions	433.6	227.6	206.0	91
Trading portfolio assets	*197.6*	*114.8*	*82.8*	*72*
Other financial instruments at fair value	*236.0*	*112.8*	*123.2*	*109*
Financial assets	*0.0*	*0.0*	*0.0*	
Other transactions	10.0	40.9	–30.9	–76
Total transferred assets	**443.6**	**268.5**	**175.1**	**65**
Trading portfolio assets	207.6	142.9	64.7	45
Debt instruments	*53.3*	*41.4*	*11.9*	*29*
Equity instruments	*153.9*	*101.4*	*52.5*	*52*
Other	*0.4*	*0.1*	*0.3*	*300*
Other financial instruments at fair value	236.0	112.8	123.2	109
Debt instruments	*236.0*	*112.8*	*123.2*	*109*
Equity instruments	*0.0*	*0.0*	*0.0*	
Financial assets	0.0	0.0	0.0	
Other assets	0.0	12.8	–12.8	–100
Total transferred assets	**443.6**	**268.5**	**175.1**	**65**
of which those where the right to sell or repledge the assets has been assigned without restriction	*433.6*	*227.6*	*206.0*	*91*
Pledged assets	424.8	536.5	–111.7	–21
Total pledged assets	**424.8**	**536.5**	**–111.7**	**–21**

The transferred or pledged assets mainly serve the contracting partners as collateral against Vontobel liabilities arising from securities borrowing, securities lending and repurchase transactions, or as collateral for settlement limits and margin accounts with central banks, clearing centres and stock exchanges, as well as for OTC contracts, collateral secured instruments (COSI) and due to customers. These assets remain on Vontobel's balance sheet because Vontobel retains the associated risks and rewards. '

24 Saleable or pledgeable securities not recorded in the balance sheet

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Securities lending, securities borrowing and reverse-repurchase transactions	1,566.0	1,330.6	235.4	18
Other transactions	60.3	51.8	8.5	16
Total fair value of securities received that can be sold or repledged	**1,626.3**	**1,382.4**	**243.9**	**18**
of which securities sold or repledged	557.7	780.3	–222.6	–29

The table contains the fair value of the securities received, where the counterparty has assigned Vontobel the unrestricted right to sell or repledge them, and the fair value of those securities for which Vontobel has made use of this right.

25 Other liabilities

	NOTE	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Accrued expenses and deferred income		324.8	305.2	19.6	6
Current tax liabilities		10.9	13.2	–2.3	–17
Deferred tax liabilities	11	41.6	42.4	–0.8	–2
Defined benefit pension liabilities	41	0.0	2.1	–2.1	–100
Value-added tax and other tax liabilities		7.8	6.7	1.1	16
Settlement and clearing accounts		2.3	30.1	–27.8	–92
Open settlement positions		275.9	166.1	109.8	66
Liability to purchase minority interests		57.4	50.3	7.1	14
Other liabilities		59.2	54.6	4.6	8
Liabilities held for sale	40	140.5	0.0	140.5	
Others		7.6	8.3	–0.7	–8
Total		**928.0**	**679.0**	**249.0**	**37**

26 Provisions

CHF MN	OTHER	2017 TOTAL	2016 TOTAL
Balance at the beginning of the year	33.4	33.4	18.4
Utilization in conformity with designated purpose	–0.8	–0.8	–1.4
Increase in provisions recognized in the income statement	8.0	8.0	17.9
Release of provisions recognized in the income statement	–0.2	–0.2	–1.6
Recoveries	0.2	0.2	0.1
Change in scope of consolidation	0.0	0.0	0.0
Reclassification	–0.1	–0.1	0.0
Translation differences	0.1	0.1	0.0
Provisions as at the balance sheet date	**40.6**	**40.6**	**33.4**

Other provisions consist of provisions for process risks and other liabilities.

A provision is recorded if, as a result of a past event, the Group has a current liability as of the balance sheet date that will probably lead to an outflow of funds, the level of which can be reliably estimated. When determining whether a provision should be recorded and whether the amount of the provision is appropriate, the best possible estimates and assumptions as of the balance sheet date are used; these estimates and assumptions may be adapted at a later date if necessary, based on new findings and circumstances.

Vontobel is involved in various legal proceedings in the course of its normal business operations. A provision is recorded in respect of current and potential legal proceedings if the above recognition criteria are met. In certain cases, external legal specialists are consulted to determine whether this is the case. In the second half of 2016 a provision of CHF 13.4 mn relating to remaining litigation risks in Germany has been recorded and it was adjusted in the financial year 2017 based on new information.

27 Share capital

Share capital

	SHARE CAPITAL		AUTHORIZED CAPITAL	
	NUMBER OF SHARES	PAR VALUE CHF MN	NUMBER OF SHARES	PAR VALUE CHF MN
Balance as of 01.01.2015	65,000,000	65.0	0	0.0
Balance as of 31.12.2015	56,875,000	56.9	0	0.0
Balance as of 31.12.2016	56,875,000	56.9	0	0.0
Balance as of 31.12.2017	**56,875,000**	**56.9**	**0**	**0.0**

The share capital is fully paid in. In accordance with the resolution of the General Meeting of Shareholders of 28 April 2015 to carry out a capital reduction, 8,125,000 treasury shares were cancelled in the financial year 2015.

Authorized capital

In the financial years 2017 and 2016 the Board of Directors did not apply for the creation of authorized capital.

Contingent share capital

There is no contingent share capital.

Treasury shares

	NUMBER	CHF MN
Balance as of 01.01.2016	2,103,109	94.6
Purchases	1,344,070	60.9
Decreases	–1,340,812	–61.7
Balance as of 31.12.2016	2,106,367	93.8
Purchases	1,007,777	58.6
Decreases	–1,525,807	–72.8
Balance as of 31.12.2017	**1,588,337**	**79.6**

As of 31.12.2017 Vontobel held 15,471 (previous year 29,714) treasury shares to secure options and structured products. Own shares were offset against shareholders' equity in accordance with IAS 32.

28 Unrealized gains and losses on financial investments

	31.12.2017		31.12.2016	
CHF MN	UNREALIZED GAINS	UNREALIZED LOSSES	UNREALIZED GAINS	UNREALIZED LOSSES
Debt instruments	2.9	–7.5	9.6	–6.3
Equity instruments and other participations	1.4	0.0	1.5	0.0
Units in investment funds	0.1	0.0	0.2	–0.2
Total before taxes	**4.4**	**–7.5**	**11.3**	**–6.5**
Taxes	–0.3	1.3	–2.1	1.4
Total net of tax [1]	**4.1**	**–6.2**	**9.2**	**–5.1**

1 The total amount net of tax includes exchange differences in the amount of CHF –0.5 mn (previous year CHF –0.5 mn).

Transactions with related parties

29 Compensation and loans of governing bodies

Compensation of governing bodies
The governing bodies of Vontobel comprise the members of the Board of Directors of Vontobel Holding AG and the members of the Executive Board. Additional information about the current members of governing bodies can be found in the Corporate Governance section of this annual report. The compensation paid to this group of people is listed below. Further information can be found in the Vontobel Compensation Report commencing on page 57.

Compensation is recognized in the financial year in which it is accrued. It is thus reported according to the accrual principle, irrespective of cash flows. This does not include expense related to performance shares and other deferred compensation, which is recorded during the vesting period. However, once the vesting conditions have been met, the allocation of shares is shown at the point in time when the performance shares are transferred to employees.

Compensation of the members of the Board of Directors of Vontobel Holding AG and Bank Vontobel AG for the financial year

	31.12.2017 CHF MN	31.12.2016[1] CHF MN	CHANGE TO 31.12.2016 CHF MN	CHANGE TO 31.12.2016 IN %
Short-term employee benefits	2.4	2.4	0.0	0
Post-employment benefits	0.1	0.1	0.0	0
Other long-term benefits	0.0	0.0	0.0	
Termination benefits	0.0	0.0	0.0	
Equity compensation benefits[2,3]	1.7	1.6	0.1	6
Total mandate-related compensation for the financial year[4]	**4.2**	**4.1**	**0.1**	**2**
Compensation for additional services	0.0	0.0	0.0	
Total compensation for the financial year[5]	**4.2**	**4.1**	**0.1**	**2**

1 Including compensation paid to one former member and three new members of the Board of Directors pro rata temporis.
2 The members of the Board of Directors received a total of 34,273 (previous year 39,938) shares of Vontobel Holding AG as part of their compensation for the year under review. None of those shares entail a conditional right to receive performance shares following the expiry of a three-year vesting period.
3 The cost of the performance shares is not included in the calculation of share-based compensation during the vesting period of the shares.
4 Excluding flat rate compensation for expenses and employer contribution to AHV / IV / ALV
5 The expense relating to performance shares is not included in “Total compensation for the financial year”. The allocation of performance shares is shown separately in the following table “Allocation of shares from the long-term employee share-based benefit program”.

Allocation of shares from the long-term employee share-based benefit program

	31.12.2017 NUMBER	31.12.2016 NUMBER	CHANGE TO 31.12.2016 NUMBER	CHANGE TO 31.12.2016 IN %
Number of performance shares allotted to Herbert J. Scheidt[1]	35,340	30,144	5,196	17

The allocated performance shares are a long-term component of the compensation system and, as such, are not included in the previous table “Compensation for the financial year”. Instead, they are shown separately in this table.
1 In accordance with the relevant IFRS rules the cost recorded as equity compensation benefits was CHF 1.0 mn (previous year CHF 0.8 mn) and was included on a pro rata basis over the vesting period.

Compensation of the members of the Executive Board for the financial year

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Base salary	3.7	3.7	0.0	0
Other short-term employee benefits[1]	0.0	0.0	0.0	
Cash component of bonus[2]	5.7	5.4	0.3	6
Post-employment benefits	0.7	0.6	0.1	17
Other long-term benefits	0.0	0.0	0.0	
Termination benefits	0.0	0.0	0.0	
Equity compensation benefits bonus shares[2,3]	5.7	5.4	0.3	6
Total contract-related compensation for the financial year[4]	**15.8**	**15.1**	**0.7**	**5**
Compensation for additional services	0.0	0.0	0.0	
Total compensation for the financial year[5]	**15.8**	**15.1**	**0.7**	**5**
Number of persons receiving compensation	6	6	0	0

1 Other short-term employee benefits comprise family allowance payments and preferential interest rates for mortgages.
2 Financial year 2017: Subject to the approval of the General Meeting of Shareholders 2018
3 A total of 118,902 (previous year 127,831) Vontobel Holding AG shares were allocated to members of the Executive Board. These bonus shares entail a conditional right to receive performance shares following the expiry of a three-year vesting period.
4 Excluding flat rate compensation for expenses and employer contribution to AHV/IV/ALV
5 The expense relating to performance shares is not included in “Total compensation for the financial year”. The allocation of performance shares is shown separately in the “Allocation of shares from the long-term employee share-based benefit program” table below.

Allocation of shares from the long-term employee share-based benefit program

	31.12.2017 CHF MN OR NUMBER	31.12.2016 CHF MN OR NUMBER	CHANGE TO 31.12.2016 CHF MN OR NUMBER	IN %
Market value of performance shares at the date on which they were allotted in CHF mn[1]	10.5	6.1	4.4	72
Number of performance shares allotted	189,660	146,700	42,960	29
Number of persons receiving compensation	6	6	0	0

The allocated performance shares are a long-term component of the compensation system and, as such, are not included in the previous table “Compensation for the financial year”. Instead, they are shown separately in this table.
1 In accordance with the relevant IFRS rules the cost recorded as equity compensation benefits was CHF 5.2 mn (previous year CHF 3.9 mn) and was included on a pro rata basis over the vesting period.

Employee share-based benefit program and other deferred compensation

Under the current share participation plan, which was introduced in spring 2005, employees can opt to receive 25% of their bonus in the form of bonus shares of Vontobel Holding AG at preferential terms. For bonus amounts exceeding CHF 100,000, it is mandatory for employees to take 25% of the bonus in the form of shares. Employees who exercise roles that are defined by the Board of Directors as special positions are required to take 33% of their bonus in the form of shares. In the case of members of the Executive Board, this mandatory portion increases to 50% of their total bonus. These shares are awarded at a price corresponding to 80% of the relevant market price. The relevant market price is the average of the closing prices in the month of December of the year for which the bonus is paid. The bonus shares are blocked for three years and cannot be disposed of during that period. The fair value of bonus shares at grant date is charged as personnel expense. Employees who receive bonus shares automatically participate in the performance shares program. The right to receive performance shares depends on the performance of the business over the last three years, hence the name “performance shares”, as well as on the number of bonus shares received. The company’s average return on equity (ROE) and the average risk profile (BIS tier 1 capital ratio) are taken into account when determining its performance. A third requirement when receiving performance shares is that they are only paid to employees who remain in an employment relationship on which notice has not been served three years after they received the bonus shares. On the balance sheet date, the expense relating to the performance share program is estimated for the entire vesting period and charged to personnel expense on a pro rata temporis basis. When determining the expense, the estimates for the return on equity, the BIS tier 1 capital ratio and the probability that employees will leave the company are updated, while the relevant share price is fixed at the time when the rights to receive performance shares are granted and is not adjusted during the vesting period. It corresponds to the fair value of the Vontobel Holding AG share at this time, less the present value of the dividends expected during the vesting period.

Blocked shares

NUMBER	EMPLOYEES 31.12.2017	EMPLOYEES 31.12.2016	MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD 31.12.2017	MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD 31.12.2016
Holdings of blocked shares at the beginning of the year	1,172,714	1,163,294	522,139	534,331
Allotted shares and transfers (addition)	375,579	394,296	166,127	184,278
Shares for which the holding period has lapsed	–387,122	–316,699	–179,874	–192,020
Shares of employees / members who have left the Group and transfers (reduction)	–29,801	–68,177	–295	–4,450
Holdings of blocked shares as at the balance sheet date	**1,131,370**	**1,172,714**	**508,097**	**522,139**
Charged as personnel expense in the year under review (CHF mn)	1.0	0.1	0.4	0.4
Charged as personnel expense in the preceding year (CHF mn)	19.9	17.9	8.8	7.9
Average price of shares upon allotment (CHF)	55.60	45.70	55.62	44.63
Fair value of blocked shares as at the balance sheet date (CHF mn)	69.6	62.7	31.2	27.9

Deferred compensation outstanding

Right to receive performance shares

Vontobel's compensation concept focuses on the achievement of sustained success. The awarding of performance shares is a long-term component of this compensation system. The number of shares allocated in the year under review is calculated on the basis of the number of bonus shares received for the financial year 2013 as well as the performance of the business in the years 2014 to 2016, measured in terms of the average return on equity (ROE) and the average risk profile (BIS tier 1 capital ratio). The cost per allocated share recorded as share-based compensation was CHF 27.55. The market price was CHF 55.60 on the allocation date in March 2017 and was CHF 61.50 as at the balance sheet date.

In view of expectations regarding the performance of the business (ROE and BIS tier 1 capital ratio), the calculation of the number of rights is based on the assumption that between 108% and 122% (previous year between 113% and 133%) of the original number of bonus shares will be allocated as performance shares to eligible employees in connection with the individual programs.

If the ROE in 2018 and 2019 is 3 percentage points higher (lower) than expected due to an improvement (deterioration) in the performance of the business, between 118% and 130% (95% and 120%) of the original number of bonus shares will be granted as performance shares to eligible employees in connection with the individual programs. If the BIS tier 1 capital ratio in 2018 and 2019 is 2 percentage points higher (lower) than expected, these factors would be between 120% and 129% (108% and 122%). Further information is available at: www.vontobel.com/compensation-report. As a result, a reasonably possible deviation from the expected values would not have a significant impact on Vontobel's future personnel expense.

Performance shares

	EMPLOYEES		CHAIRMAN OF THE BOARD OF DIRECTORS AND MEMBERS OF THE EXECUTIVE BOARD	
NUMBER	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Holdings of rights at the beginning of the year	1,458,398	1,233,447	577,654	536,037
Allotted rights and transfers (addition)	375,579	394,296	127,831	141,643
Recorded performance shares	–514,518	–297,088	–225,000	–176,844
Forfeited rights and transfers (reduction)	–26,068	–72,154	0	0
Change of rights due to modified parameters	27,892	199,897	13,395	76,818
Holdings of rights as at the balance sheet date	**1,321,283**	**1,458,398**	**493,880**	**577,654**
CHF MN				
Personnel expense recorded over the vesting period for recorded performance shares	14.2	7.8	6.2	4.7
Market value of recorded performance shares on the allocation date	28.6	12.4	12.5	7.4
Charged as personnel expense in the year under review	18.6	17.1	7.0	6.9
Cumulative charge to personnel expense for outstanding rights to performance shares as at the balance sheet date	30.4	26.3	11.6	10.6
Estimated personnel expense for the remaining vesting periods including future terminations	18.9	19.3	6.8	7.3
Estimated personnel expense for the remaining vesting periods excluding future terminations	21.9	22.4	7.9	8.4
Other deferred compensation as at the balance sheet date				
In cash	3.9	3.2	0.0	–
Share-based compensation benefits	0.0	0.0	0.0	–
Number of shares	0.0	0.0	0.0	–
Personnel expense recorded in the year under review for share-based compensation	0.0	–8.9	0.0	–
Estimated personnel expense for share-based compensation for the remaining vesting periods	0.0	0.0	0.0	–

Governing body loans and employee terms and conditions
Loans to members of Vontobel's governing bodies and to significant shareholders and the persons and companies related to them may only be granted in accordance with the generally recognized principles of the banking industry. Governing body members are generally treated like employees, and that particularly in regard to lending terms. Governing body loans must be approved by the Board of Directors of Vontobel Holding AG in addition to the levels of authority applicable to employees.

As of 31.12.2017, fully secured loans and credits to and the promise of payment in favour of the members of Vontobel's governing bodies or related parties of CHF 2.5 mn were outstanding. As of 31 December 2016, margin calls fully secured against collateral and guarantees for members of governing bodies and significant shareholders totalled CHF 1.9 mn. No loans to former members of the Board of Directors or the members of the Executive Board were outstanding that were not granted according to standard terms and conditions.

Vontobel has granted mortgage loans to members of its governing bodies and to employees since 1 October 2016. It provides mortgage loans to them at a preferential interest rate of up to 1% below the usual interest rate up to a maximum loan amount of CHF 1 million per borrower. In addition, as part of a transitional arrangement, Vontobel provides the same terms and conditions in the case of existing mortgage loans of members of its governing bodies and employees from selected third-party banks until maturity. Vontobel does not assume any credit risks or other obligations in this context.

The members of the Board of Directors and the Executive Board conduct usual banking transactions with Vontobel at the same conditions as employees.

30 Transactions with related companies and persons

Companies and persons are deemed related if one side is able to control the other or exert a substantial influence on the other's financial or operational decisions.

Transactions with related companies and persons

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Receivables	0.9	2.1	–1.2	–57
Liabilities	207.3	231.9	–24.6	–11

Reported liabilities consist of current account balances of related companies / persons as well as liabilities from financial hedging transactions.

Vontobel Foundation and other members of the shareholder pool
The Vontobel Foundation conducts business with Bank Vontobel AG at preferential terms.

Pension funds of Vontobel
The assets of these pension funds are managed by Vontobel Asset Management AG.

Risk related to balance sheet positions

31 Risk related to balance sheet positions

CHF MN	DEMAND	SUBJECT TO NOTICE	DUE WITHIN 3 MONTHS	DUE WITHIN 3 TO 12 MONTHS	DUE WITHIN 1 TO 5 YEARS	DUE AFTER 5 YEARS	31.12.2017 TOTAL
Liquidity risk							
Maturity structure of assets and liabilities							
Assets							
Cash	6,287.9						6,287.9
Due from banks	1,631.0		17.7	10.0			1,658.7
Cash collateral for securities borrowing agreements		8.5					8.5
Cash collateral for reverse-repurchase agreements			1,007.2				1,007.2
Trading portfolio assets	3,991.2						3,991.2
Positive replacement values	243.9						243.9
Other financial assets at fair value	3,490.9						3,490.9
Loans	2.3	143.2	1,867.3	473.8	496.5	327.4	3,310.5
Financial investments	15.9		172.7	194.2	1,321.4	84.7	1,788.9
Investments in associates [1]						0.9	0.9
Property and equipment [1]						159.7	159.7
Goodwill and other intangible assets [1]						291.1	291.1
Other assets	664.3						664.3
Total assets	**16,327.4**	**151.7**	**3,064.9**	**678.0**	**1,817.9**	**863.8**	**22,903.7**
Liabilities							
Due to banks	1,221.3						1,221.3
Cash collateral from repurchase agreements							0.0
Trading portfolio liabilities	158.2						158.2
Negative replacement values	725.6						725.6
Other financial liabilities at fair value	8,451.3						8,451.3
Due to customers	9,758.2						9,758.2
Provisions				2.5	38.1		40.6
Other liabilities	870.7				28.9	28.4	928.0
Total liabilities	**21,185.3**	**0.0**	**0.0**	**2.5**	**67.0**	**28.4**	**21,283.2**
Off-balance sheet							
Contingent liabilities and irrevocable commitments	126.7	556.0	0.3	0.1	14.7	0.5	698.3

1 Immobilized

CHF MN	DEMAND	SUBJECT TO NOTICE	DUE WITHIN 3 MONTHS	DUE WITHIN 3 TO 12 MONTHS	DUE WITHIN 1 TO 5 YEARS	DUE AFTER 5 YEARS	31.12.2016 TOTAL
Liquidity risk							
Maturity structure of assets and liabilities							
Assets							
Cash	6,374.0						6,374.0
Due from banks	1,413.1		86.5	3.1			1,502.7
Cash collateral for reverse-repurchase agreements			823.1				823.1
Trading portfolio assets	2,515.8						2,515.8
Positive replacement values	172.3						172.3
Other financial assets at fair value	2,293.4						2,293.4
Loans	41.8	132.7	1,433.9	463.0	357.7	172.8	2,601.9
Financial investments	21.4		51.7	276.2	1,609.1	152.9	2,111.3
Investments in associates[1]						0.6	0.6
Property and equipment[1]						153.9	153.9
Goodwill and other intangible assets[1]						279.0	279.0
Other assets	565.9						565.9
Total assets	**13,397.7**	**132.7**	**2,395.2**	**742.3**	**1,966.8**	**759.2**	**19,393.9**
Liabilities							
Due to banks	1,139.0						1,139.0
Cash collateral from repurchase agreements							0.0
Trading portfolio liabilities	99.7						99.7
Negative replacement values	515.4						515.4
Other financial liabilities at fair value	6,354.8						6,354.8
Due to customers	9,058.5						9,058.5
Provisions				2.3	31.1		33.4
Other liabilities	628.7				25.3	25.0	679.0
Total liabilities	**17,796.1**	**0.0**	**0.0**	**2.3**	**56.4**	**25.0**	**17,879.8**
Off-balance sheet							
Contingent liabilities and irrevocable commitments	207.7	209.5	11.3	1.2	24.4	0.2	454.3

1 Immobilized

32 Fair value of financial instruments

a) Financial instruments measured at fair value
The following table shows the fair value hierarchy of those financial instruments that are measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value

CHF MN	LEVEL 1	LEVEL 2	LEVEL 3	31.12.2017 TOTAL
Assets				
Trading portfolio assets:				
Debt instruments	277.6	53.9	–	331.5
Equity instruments	2,651.9	–	0.0	2,651.9
Units in investment funds	166.8	0.1	0.3	167.2
Precious metals and cryptocurrencies	840.6	–	–	840.6
Positive replacement values	33.3	210.6	0.0	243.9
Other financial assets at fair value:				
Debt instruments [1]	2,590.7	829.0	–	3,419.7
Equity instruments	0.0	–	0.0	0.0
Units in investment funds	32.8	9.2	5.5	47.5
Structured products	–	23.7	–	23.7
Financial assets available-for-sale:				
Debt instruments	1,748.6	24.4	–	1,773.0
Equity instruments and other participations	0.2	–	14.8	15.0
Units in investment funds	0.7	0.2	0.0	0.9
Other assets	8.3	0.0	0.0	8.3
Total financial assets at fair value	**8,351.5**	**1,151.1**	**20.6**	**9,523.2**
Liabilities				
Trading portfolio liabilities:				
Debt instruments	100.8	5.2	–	106.0
Equity instruments	52.2	–	0.0	52.2
Units in investment funds	0.0	0.0	0.0	0.0
Negative replacement values	47.9	677.7	–	725.6
Other financial liabilities at fair value [2]	–	8,451.3	–	8,451.3
Other liabilities	0.6	0.0	74.4	75.0
Total financial liabilities at fair value	**201.5**	**9,134.2**	**74.4**	**9,410.1**

1 In the case of interest rate instruments measured at fair value through profit and loss, the difference between the book value (fair value) and the contractually agreed redemption amount at maturity was CHF 37.3 mn.
2 Level 2 of the balance sheet item “Other financial liabilities at fair value” contains listed issued products with a fair value of CHF 4,951.8 mn.

CHF MN	LEVEL 1	LEVEL 2	LEVEL 3	31.12.2016 TOTAL
Assets				
Trading portfolio assets:				
Debt instruments	333.9	258.8	–	592.7
Equity instruments	1,341.8	–	0.0	1,341.8
Units in investment funds	101.9	0.1	0.1	102.1
Precious metals and cryptocurrencies	479.2	–	–	479.2
Positive replacement values	21.2	151.1	0.0	172.3
Other financial assets at fair value:				
Debt instruments [1]	1,873.1	357.2	–	2,230.3
Equity instruments	0.0	–	0.0	0.0
Units in investment funds	42.3	9.1	6.1	57.5
Structured products	–	5.6	–	5.6
Financial assets available-for-sale:				
Debt instruments	2,057.5	32.3	–	2,089.8
Equity instruments and other participations	0.2	–	14.9	15.1
Units in investment funds	6.4	0.0	0.0	6.4
Other assets	0.0	0.0	3.7	3.7
Total financial assets at fair value	**6,257.5**	**814.2**	**24.8**	**7,096.5**
Liabilities				
Trading portfolio liabilities:				
Debt instruments	68.4	3.2	–	71.6
Equity instruments	28.1	–	0.0	28.1
Units in investment funds	0.0	0.0	0.0	0.0
Negative replacement values	18.1	497.3	–	515.4
Other financial liabilities at fair value [2]	–	6,354.8	–	6,354.8
Other liabilities	–	0.0	50.3	50.3
Total financial liabilities at fair value	**114.6**	**6,855.3**	**50.3**	**7,020.2**

1 In the case of interest rate instruments measured at fair value through profit and loss, the difference between the book value (fair value) and the contractually agreed redemption amount at maturity was CHF 33.7 mn.
2 Level 2 of the balance sheet item “Other financial liabilities at fair value” contains listed issued products with a fair value of CHF 4,129.7 mn.

Level 1 instruments
In the fair value hierarchy defined in IFRS 13, level 1 instruments are those financial instruments whose fair value is based on quoted prices in active markets. This category essentially comprises almost all equity instruments and government bonds, liquid interest rate instruments issued by public sector entities and companies, investment funds for which a binding net asset value is published at least daily, exchange-traded derivatives precious metals and cryptocurrencies.

Mid-market prices are used for the valuation of interest rate instruments in the trading book provided the market price risks from these positions are offset fully or to a significant extent by other positions in the trading book. For the valuation of other interest rate instruments, bid prices are used in the case of long positions and ask prices are used in the case of short positions. For equity instruments, listed investment funds and exchange-traded derivatives, the closing or settlement prices of the relevant markets are used. Published net asset values are used in the case of unlisted investment funds. In the case of foreign currencies, precious metals and cryptocurrencies, generally accepted prices are applied.

No valuation adjustments are made in the case of level 1 instruments.

Level 2 instruments
Level 2 instruments are financial instruments whose fair value is based on quoted prices in markets that are not active or on a valuation method where significant input parameters can be observed directly or indirectly. They mainly comprise products issued by Vontobel, interest rate instruments issued by public sector entities and companies with reduced market liquidity and OTC derivatives, as well as investment funds for which a binding net asset value is published at least quarterly.

Since there is no active market pursuant to the definition of IFRS 13 for the products issued by Vontobel, their fair value is determined using valuation methods. In the case of issued options (warrants) and option components of structured products, generally recognized option pricing models and quoted prices in markets that are not active are used to determine their fair value, while the present value method is used to determine the fair value of the interest rate components of structured products. To measure the fair value of interest rate instruments where quoted prices are available but the low trading volume means there is no active market, the same rules apply to the use of mid-market prices and bid or ask prices as for the corresponding level 1 instruments. The valuation of interest rate instruments for which no quoted prices are available is carried out using generally recognized methods.

For the valuation of OTC derivatives, generally recognized valuation models and quoted prices in markets that are not active are used. Published net asset values are used in the case of investment funds.

The valuation models take account of the relevant parameters such as contract specifications, the market price of the underlying asset, foreign exchange rates, market interest rates or funding rates, default risks and volatility. Vontobel's credit risk is only taken into account when determining the fair value of financial liabilities if market participants would consider it when calculating prices. OTC derivatives are traded only on a collateralized basis, which is why own credit risk (as well as third-party credit risk in the case of receivables) is not included in the valuation.

Level 3 instruments

Level 3 instruments are financial instruments whose fair value is based on a valuation method that uses at least one significant input parameter that cannot be observed directly or indirectly in the market. They include the liability to acquire the minority interests in TwentyFour Asset Management LLP, the liability from an earn-out agreement relating to the acquisition of the Eastern European client portfolio of Notenstein La Roche, investment funds for which a binding net asset value is not published at least quarterly, and several unlisted equity instruments. An asset and a liability from earn-out agreements related to the acquisition of Finter Bank Zurich AG and of TwentyFour Asset Management LLP were settled during the financial year 2017 and the financial year 2016, respectively.

The fair value of the liability to acquire minority interests in TwentyFour Asset Management LLP is calculated using a discounted cash flow analysis in which expected future cash flows based on internal business plans are discounted. This involves various input parameters that cannot be observed such as the future development of assets under management, their profitability, the cost/income ratio and long-term growth.

The fair value of the liability from the earn-out agreement relating to the acquisition of the Eastern European client portfolio of Notenstein La Roche depends on individual contractually agreed Key Performance Indicators for the acquired activities. The value of this liability is determined on the basis of internal business plans.

The fair value of investment funds is generally calculated using estimates from external experts regarding the level of future payouts from fund units. The measurement of unlisted shares is based on the acquisition costs less any impairment. To test unlisted equity instruments for impairment, current financial information – provided Vontobel has access to such data as a result of its participation – or annual reports are consulted.

The following table shows the change in level 3 financial instruments in Vontobel's balance sheet and the income on the positions as of the balance sheet date.

Level 3 financial instruments

CHF MN	FAIR VALUE FINANCIAL INSTRUMENTS	AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	OTHER ASSETS[1]	31.12.2017 TOTAL FINANCIAL ASSETS	OTHER LIABILITIES[2]	31.12.2017 TOTAL FINANCIAL LIABILITIES
Balance sheet						
Holdings at the beginning of the year	6.2	14.9	3.7	24.8	–50.3	–50.3
Additions in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	–17.0	–17.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Redemptions	–0.4	0.0	–3.7	–4.1	0.0	0.0
Expense recognized in the income statement	–0.4	0.0	0.0	–0.4	–0.8	–0.8
Expense recognized in other comprehensive income	0.0	–0.1	0.0	–0.1	0.0	0.0
Income recognized in the income statement	0.4	0.0	0.0	0.4	0.0	0.0
Income recognized in other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0
Change recognized in shareholders' equity	0.0	0.0	0.0	0.0	–3.8	–3.8
Reclassifications to level 3	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications from level 3	0.0	0.0	0.0	0.0	0.0	0.0
Translation differences	0.0	0.0	0.0	0.0	–2.5	–2.5
Total book value at balance sheet date	**5.8**	**14.8**	**0.0**	**20.6**	**–74.4**	**–74.4**
Income in the financial year on holdings on balance sheet date						
Unrealized losses recognized in the trading income	–0.4	0.0	0.0	–0.4	0.0	0.0
Unrealized losses recognized in other income	0.0	0.0	0.0	0.0	0.0	0.0
Expense recognized in operating expense	0.0	0.0	0.0	0.0	–0.8	–0.8
Unrealized losses recognized as other comprehensive income	0.0	–0.1	0.0	–0.1	0.0	0.0
Unrealized gains recognized in the trading income	0.4	0.0	0.0	0.4	0.0	0.0
Unrealized gains recognized in other income	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized gains recognized as other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0

Of the gains and losses recognized in the income statement, CHF 0.0 mn were included in trading income, CHF 0.0 mn in other income and CHF –0.8 mn in operating expense.

1 This item contains an asset from an earn-out agreement relating to the acquisition of Finter Bank Zurich AG, which was settled during the financial year 2017.
2 This item includes the liability to acquire minority interests in TwentyFour Asset Management LLP (31.12.17: CHF 57.4 mn) and the liability from an earn-out agreement relating to the acquisition of the Eastern European client portfolio of Notenstein La Roche (31.12.17: CHF 17.0 mn).

CHF MN	FAIR VALUE FINANCIAL INSTRUMENTS	AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	OTHER ASSETS[1]	31.12.2016 TOTAL FINANCIAL ASSETS	OTHER LIABILITIES[2]	31.12.2016 TOTAL FINANCIAL LIABILITIES
Balance sheet						
Holdings at the beginning of the year	6.2	6.7	0.5	13.4	–60.7	–60.7
Additions in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Investments	0.0	7.7	0.0	7.7	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	6.3	6.3
Redemptions	–0.1	0.0	0.0	–0.1	0.0	0.0
Expense recognized in the income statement	–0.1	–0.4	0.0	–0.5	–2.7	–2.7
Expense recognized in other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0
Income recognized in the income statement	0.2	0.0	3.2	3.4	0.0	0.0
Income recognized in other comprehensive income	0.0	0.9	0.0	0.9	0.0	0.0
Change recognized in shareholders' equity	0.0	0.0	0.0	0.0	–2.6	–2.6
Reclassifications to level 3	0.0	0.0	0.0	0.0	0.0	0.0
Reclassifications from level 3	0.0	0.0	0.0	0.0	0.0	0.0
Translation differences	0.0	0.0	0.0	0.0	9.4	9.4
Total book value at balance sheet date	**6.2**	**14.9**	**3.7**	**24.8**	**–50.3**	**–50.3**
Income in the financial year on holdings on balance sheet date						
Unrealized losses recognized in the trading income	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized losses recognized in other income	0.0	–0.4	0.0	–0.4	0.0	0.0
Expense recognized in operating expense	0.0	0.0	0.0	0.0	–0.8	–0.8
Unrealized losses recognized as other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0
Unrealized gains recognized in the trading income	0.2	0.0	0.0	0.2	0.0	0.0
Unrealized gains recognized in other income	0.0	0.0	3.2	3.2	0.0	0.0
Unrealized gains recognized as other comprehensive income	0.0	0.9	0.0	0.9	0.0	0.0

Of the gains and losses recognized in the income statement, CHF 0.1 mn were included in trading income, CHF 0.9 mn in other income and CHF –0.8 mn in operating expense.

1 This item contains an asset from an earn-out agreement relating to the acquisition of Finter Bank Zurich AG.
2 This item contains a liability from an earn-out agreement relating to the acquisition of TwentyFour Asset Management LLP (01.01.2016: CHF 5.3 mn), which was settled during the financial year 2016, as well as the liability to acquire the relevant minority interests (01.01.2016: CHF 55.4 mn).

Valuation adjustments

The fair value of level 2 and level 3 instruments is always an estimate or an approximation of a value that cannot be determined with absolute certainty. Furthermore, the valuation methods used do not always reflect all of the factors that are relevant when determining fair value. To ensure that the valuations are appropriate, additional factors are considered in the case of products issued by Vontobel. These factors include uncertainties relating to models and parameters, as well as liquidity risks and the risk of the early redemption of the products issued. The adjustments due to uncertainties relating to the models and parameters reflect the uncertainties in the model assumptions and input parameters associated with the valuation methods used. The adjustments due to liquidity risks take account of the expected costs of hedging open net risk positions. Management believes it is necessary and appropriate to take these factors into account in order to correctly determine the fair value.

The appropriateness of the valuation of financial instruments that are not traded in an active market is ensured through the application of clearly defined methods and processes as well as independent controls. The control processes comprise the analysis and approval of new instruments, the regular analysis of risks as well as gains and losses, the verification of prices and the examination of the models on which the estimates of the fair value of financial instruments are based. These controls are conducted by units that possess the relevant specialist knowledge and operate independently from the trading and investment functions.

Sensitivity of fair values of level 3 instruments

Key assumptions for the measurement of the liability to acquire minority interests in TwentyFour Asset Management LLP are the discount rate (31.12.17: 12.0%; 31.12.16: 12.0%) that will be used to discount future cash flows, as well as the long-term growth of these cash flows (31.12.17: 1.0%; 31.12.16: 1.0%). The following table shows how the measurement is affected by changes in these two assumptions.

Key assumptions

	VARIATION OF THE KEY ASSUMPTION	CHANGE IN THE FAIR VALUE AS OF 31.12.2017 CHF MN	CHANGE IN THE FAIR VALUE AS OF 31.12.2016 CHF MN
Discount rate	+1 percentage point	–4.4	–4.1
Discount rate	–1 percentage point	5.1	4.9
Long-term growth	+1 percentage point	2.5	2.1
Long-term growth	–1 percentage point	–2.1	–1.8

In the case of the liability from the earn-out agreement relating to the acquisition of the Eastern European client portfolio of Notenstein La Roche, a reasonably realistic change in input parameters has no significant impact on Vontobel's consolidated financial statements.

A change in the net asset value of investment funds or in the price of unlisted shares leads to a proportional change in fair value of these financial instruments. A reasonably realistic change in input parameters has no significant impact on Vontobel's consolidated financial statements.

Day 1 profit

When a financial instrument is recognized for the first time, the transaction price provides the best indication of the fair value unless the fair value of this financial instrument can be evidenced by comparison with other observable current market transactions involving the same instrument (level 1 instrument) or is based on a valuation method that uses market data (level 2 instrument). If this is the case, the difference between the transaction price and the fair value – referred to as "day 1 profit" – is recorded in "Trading income" in the case of trading portfolio assets and liabilities, other financial instruments at fair value and derivative financial instruments and is recorded in "Other comprehensive income" in the case of financial investments.

In the case of level 3 instruments, the "day 1 profit" is deferred and is not recognized in the income statement. It is only recorded as "Trading income" or as "Other comprehensive income" when the fair value can be determined using observable market data. During the financial year and the previous year, no positions with deferred day 1 profit were recorded.

Reclassifications within the fair value hierarchy

In 2017 (previous year), positions with a fair value of CHF 95.7 mn (CHF 149.7 mn) were reclassified from level 1 to level 2, positions with a fair value of CHF 52.9 mn (CHF 115.4 mn) were reclassified from level 2 to level 1, and positions with a fair value of CHF 0.0 mn (CHF 0.0 mn) were reclassified from level 2 to level 3. In the event of changes in the availability of market prices (market liquidity) or of binding net asset values of investment funds, reclassifications are made at the end of the period under review.

b) Financial instruments measured at amortized cost
The following table shows the book value, the estimated fair value and the fair value hierarchy of those financial instruments that are measured at amortized cost.

Financial instruments measured at amortized cost

				31.12.2017		31.12.2016	
CHF MN	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE TOTAL	BOOK VALUE TOTAL	FAIR VALUE TOTAL	BOOK VALUE TOTAL
Assets							
Cash	6,287.9	0.0	–	6,287.9	6,287.9	6,374.0	6,374.0
Due from banks	–	1,658.7	–	1,658.7	1,658.7	1,502.7	1,502.7
Cash collateral for securities borrowing agreements	–	8.5	–	8.5	8.5	0.0	0.0
Cash collateral for reverse-repurchase agreements	–	1,007.2	–	1,007.2	1,007.2	823.1	823.1
Loans	–	3,351.4	–	3,351.4	3,310.5	2,626.1	2,601.9
Other assets [1]	90.2	346.0	–	436.2	436.2	434.9	434.9
Total	**6,378.1**	**6,371.8**	**0.0**	**12,749.9**	**12,709.0**	**11,760.8**	**11,736.6**
Liabilities							
Due to banks	–	1,221.3	–	1,221.3	1,221.3	1,139.0	1,139.0
Cash collateral from repurchase agreements	–	0.0	–	0.0	0.0	0.0	0.0
Due to customers	–	9,758.2	–	9,758.2	9,758.2	9,058.5	9,058.5
Other liabilities [1]	0.8	791.8	–	792.6	792.6	564.3	564.3
Total	**0.8**	**11,771.3**	**0.0**	**11,772.1**	**11,772.1**	**10,761.8**	**10,761.8**

1 The position mainly includes the accrued interest as well as open settlement positions.

Short-term financial instruments at amortized cost or par value
Included here are accounts due from/to banks, loans and accounts due to customers as well as cash collateral from repurchase and for reverse-repurchase and as well for securities-borowing agreements that have a maturity or a refinancing profile of at most one year, the balance sheet item "cash", as well as financial instruments included in other assets/liabilities. In the case of short-term financial instruments, it is assumed that the book value is close enough to the fair value.

Long-term financial instruments at amortized cost
Included here are accounts due from/to banks, loans and accounts due to customers as well as cash collateral from repurchase and for reverse-repurchase and as well for securities-borowing agreements that have a maturity or a refinancing profile of over one year. Fair value is determined using the present value method.

33 Netting agreements

To reduce credit risks related to derivative contracts, repurchase and reverse-repurchase agreements and securities lending and borrowing agreements, Vontobel enters into master netting agreements or similar netting arrangements with its counterparties. These netting agreements include ISDA Master Netting Agreements, Global Master Securities Lending Agreements (GMSLA), Global Master Repo Agreements (GMRA) and derivatives market rules.

These netting agreements enable Vontobel to protect itself against loss in the event of a possible insolvency or other circumstances that result in a counterparty being unable to meet its obligations. In such cases, the netting agreements provide for the immediate net settlement of all financial instruments covered by the agreement. The right of set-off essentially only becomes enforceable following a default event or other circumstances not expected to arise in the normal course of business. The financial instruments covered by a netting agreement do therefore not meet the requirements for balance sheet offsetting, which is why the book values of the corresponding financial instruments are not offset on the balance sheet.

Financial assets

CHF MN	AMOUNT BEFORE BALANCE SHEET OFFSETTING	BALANCE SHEET OFFSETTING	BOOK VALUE	FINANCIAL INSTRUMENTS NOT OFFSET	COLLATERAL RECEIVED	UNSECURED AMOUNT
Positive replacement values	243.9	0.0	243.9	142.0	95.8	6.1
Cash collateral for reverse-repurchase agreements	1,007.2	0.0	1,007.2	0.0	1,007.2	0.0
Cash collateral for securities borrowing agreements	8.5	0.0	8.5	0.0	8.1	0.4
Total 31.12.2017	**1,259.6**	**0.0**	**1,259.6**	**142.0**	**1,111.1**	**6.5**

Financial liabilities

CHF MN	AMOUNT BEFORE BALANCE SHEET OFFSETTING	BALANCE SHEET OFFSETTING	BOOK VALUE	FINANCIAL INSTRUMENTS NOT OFFSET	COLLATERAL PROVIDED	UNSECURED AMOUNT
Negative replacement values[1]	377.6	0.0	377.6	142.0	121.1	114.5
Cash collateral from repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0
Cash collateral from securities lending agreements	0.0	0.0	0.0	0.0	0.0	0.0
Total 31.12.2017	**377.6**	**0.0**	**377.6**	**142.0**	**121.1**	**114.5**

1 Negative replacement values in the amount of CHF 348.0 mn are not included in the table because the corresponding derivatives are not covered by a netting agreement.

Financial assets

CHF MN	AMOUNT BEFORE BALANCE SHEET OFFSETTING	BALANCE SHEET OFFSETTING	BOOK VALUE	FINANCIAL INSTRUMENTS NOT OFFSET	COLLATERAL RECEIVED	UNSECURED AMOUNT
Positive replacement values	172.3	0.0	172.3	108.0	59.4	4.9
Cash collateral for reverse-repurchase agreements	823.1	0.0	823.1	0.0	823.1	0.0
Cash collateral for securities borrowing agreements	0.0	0.0	0.0	0.0	0.0	0.0
Total 31.12.2016	**995.4**	**0.0**	**995.4**	**108.0**	**882.5**	**4.9**

Financial liabilities

CHF MN	AMOUNT BEFORE BALANCE SHEET OFFSETTING	BALANCE SHEET OFFSETTING	BOOK VALUE	FINANCIAL INSTRUMENTS NOT OFFSET	COLLATERAL PROVIDED	UNSECURED AMOUNT
Negative replacement values[1]	287.2	0.0	287.2	108.0	148.6	30.6
Cash collateral from repurchase agreements	0.0	0.0	0.0	0.0	0.0	0.0
Cash collateral from securities lending agreements	0.0	0.0	0.0	0.0	0.0	0.0
Total 31.12.2016	**287.2**	**0.0**	**287.2**	**108.0**	**148.6**	**30.6**

1 Negative replacement values in the amount of CHF 228.2 mn are not included in the table because the corresponding derivatives are not covered by a netting agreement.

Off-balance sheet and other information

34 Off-balance sheet information

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Contingent liabilities				
Credit guarantees	416.6	201.8	214.8	106
Performance guarantees	8.5	12.8	–4.3	–34
Other contingent liabilities	183.0	207.7	–24.7	–12
Total	**608.1**	**422.3**	**185.8**	**44**
Irrevocable commitments				
Undrawn irrevocable credit facilities	90.2	32.0	58.2	182
of which payment obligation to client deposit protection	*15.4*	*15.8*	*–0.4*	*–3*

Of the aggregate sum of CHF 698.3 mn (previous year CHF 454.3 mn) comprising contingent liabilities and irrevocable commitments, a total of CHF 579.6 mn (CHF 300.1 mn) is secured by recognized collateral and CHF 118.7 mn (CHF 154.2 mn) are unsecured. Of which CHF 8.9 mn (contingent liabilities) and CHF 0.8 mn (irrevocable commitments) relate to activities in Liechtenstein, which are expected to be sold in the first quarter of 2018 (see note 40).

	31.12.2017 CHF MN	31.12.2016 CHF MN	CHANGE TO 31.12.2016 CHF MN	IN %
Fiduciary transactions				
Other fiduciary placements	1,608.3	1,046.8	561.5	54
Total	**1,608.3**	**1,046.8**	**561.5**	**54**

Litigation
In 2014, the German tax authorities launched an investigation into Vontobel and a large number of other Swiss financial institutions. Vontobel held talks with the German authorities to obtain transparency and legal certainty for the bank, its employees and its clients. Vontobel is doing so although it has long adopted a future-oriented approach in its business – especially with German clients – and has systematically reviewed the tax status of its clients and actively supported their efforts to regularize their tax status. Provisions of EUR 13.7 mn were reported in the balance sheet relating to remaining litigation risks in Germany.

In connection with the fraud committed by Bernard Madoff, the liquidators of investment vehicles that invested directly or indirectly in Madoff funds have filed lawsuits with various courts against more than 100 banks and custodians. The litigation is targeted at investors who redeemed their investments in these vehicles between 2004 and 2008. The liquidators are demanding that the investors repay the sums involved because they consider them to have been obtained unjustly as a result of the redemptions. Since the liquidators often only know the names of the investors' custodian banks, they have filed the lawsuits against them. Several legal entities of Vontobel are or may be affected by the litigation in their capacity as a bank or custodian. The claims filed against Vontobel since 2010 concern the redemption of investments worth around USD 43.1 mn. However, based on the information currently available to it, Vontobel believes the probability of a lawsuit resulting in an outflow of funds is low and has therefore decided not to set aside any provisions for such a lawsuit, but rather to disclose the amount under contingent liabilities.

35 Hedge Accounting

Cash flow hedges
Vontobel is exposed to volatility in future interest income (or cash flows) on secured loans (lombard loans), the majority of which bear short-term interest and are likely to be reinvested. Vontobel hedges part of this interest income using multi-year receiver interest rate swaps. The amount and the timing of future interest income is forecast, taking account of the contractual terms of the secured loans and other relevant factors.

The change in fair value of the effective portion of the interest rate swaps is recognized in other comprehensive income and is shown in the statement of equity in the column "Cash flow hedges", while the change in fair value of the ineffective portion of the interest rate swaps is recognized in trading income. When the hedged interest income affects profit or loss, the related income from hedges is transferred from shareholders' equity to net interest income.

In the case of interest rate swaps used as hedging instruments, positive and negative replacement values of CHF 0.0 mn and CHF 1.6 mn, respectively, were recorded as of 31.12.2017 (31.12.2016: CHF 0.0 mn and CHF 1.0 mn). In the year under review, income from effective hedges of CHF –0.6 mn (31.12.2016: CHF –0.3 mn) was recognized in other comprehensive income. Income from non-effective hedges of CHF –0.0 mn (31.12.2016: CHF –0.0 mn) was recorded in the income statement in the period under review.

Hedges of net investments in foreign operations
Vontobel hedges part of its net investments in foreign operations. The spot components of foreign currency forwards and the foreign currency components of financial liabilities serve as hedging instruments in this context. The change in fair value of the effective portion of the forwards and of the foreign currency components of financial liabilities is recognized in other comprehensive income and is shown in the statement of equity in the column "Currency translation adjustments", while the change in fair value of the ineffective and/or non-designated portion (interest component) of the forwards is recognized in trading income. If a realization event occurs (e.g. if control over a Group company is lost), the related income from hedges is transferred from shareholders' equity to the income statement.

In the case of forwards used as hedging instruments, positive and negative replacement values of CHF 0.0 mn and CHF 0.4 mn, respectively, were recorded as of 31.12.2017 (31.12.2016: CHF 0.2 mn and CHF 0.0 mn). In the case of financial liabilities used as hedging instruments, a fair value of CHF 43.5 mn (31.12.2016: CHF 41.4 mn) was recorded as of 31.12.2017. In the period under review, income from effective hedges of CHF –8.3 mn (31.12.2016: CHF 8.1 mn) was recognized in other comprehensive income. During the period under review and the prior period no income from non-effective hedges was recorded in the income statement.

36 Client assets

Client assets is a broader term than assets under management and comprises all bankable assets that are managed by or deposited with Vontobel, including assets that are held solely for transaction or custody purposes and for which further services are provided, as well as investment products offered by Financial Products to give private and institutional clients access to all asset classes and markets.

Client assets

	31.12.2017 CHF BN	31.12.2016 CHF BN	CHANGE TO 31.12.2016 CHF BN	CHANGE TO 31.12.2016 IN %
Assets under management	165.3	138.5	26.8	19
Other advised client assets	12.8	10.4	2.4	23
Structured products outstanding	8.5	6.4	2.1	33
Total advised client assets	**186.6**	**155.3**	**31.3**	**20**
Custody assets	59.9	40.1	19.8	49
Total client assets	**246.5**	**195.4**	**51.1**	**26**

Assets under management

	31.12.2017 CHF BN	31.12.2016 CHF BN	CHANGE TO 31.12.2016 CHF BN	IN %
Assets in self-managed collective investment instruments	48.3	37.4	10.9	29
Assets with management mandate	64.4	57.5	6.9	12
Other assets under management	52.6	43.6	9.0	21
Total assets under management (including double counts)	**165.3**	**138.5**	**26.8**	**19**
of which double counts	*4.4*	*3.7*	*0.7*	*19*

Calculation in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) concerning accounting standards for financial institutions and Vontobel internal guidelines

Development of assets under management

CHF BN	31.12.2017	31.12.2016
Total assets under management (incl. double counts) at the beginning of the year	138.5	136.3
Change attributable to net new money	5.9	–10.6
Change attributable to market value	18.8	4.9
Change attributable to other effects [1,2]	2.1	7.9
Total assets under management (incl. double counts) at the balance sheet date	**165.3**	**138.5**

1 Financial year 2016: Acquisition of Vescore AG as per 20 September 2016
2 Financial year 2017: Acquisition of the Eastern European client portfolio of Notenstein La Roche in December 2017

Assets under management and net inflows/outflows of new money

Assets under management are calculated and reported in accordance with the guidelines issued by the Swiss Financial Market Supervisory Authority (FINMA) concerning accounting standards for financial institutions. Assets under management comprise all of the assets managed or held for investment purposes of private, corporate and institutional clients excluding borrowings, as well as assets in self-managed collective investment instruments. This includes all amounts due to customers on savings and deposit accounts, fixed-term and fiduciary deposits, and all valued assets. Assets under management that are deposited with third parties are included to the extent that they are managed by a Vontobel company. Assets under management only include those assets on which Vontobel generates considerably higher income than on assets that are held solely for custody purposes or the execution of transactions. These types of custody assets are reported separately. Assets that are counted more than once, i. e. in several categories of assets under management to be disclosed, are shown under double counts. They primarily include shares in self-managed collective investment instruments in client portfolios.

Net inflows or outflows of assets under management during the reporting period consist of the acquisition of new clients, the departure of clients as well as inflows and outflows of assets from existing clients. This also includes the borrowing and the repayment of loans, as well as the distribution of collective capital investments. The calculation of the net inflow or outflow of new money is performed at the level "total assets under management" (excl. double counts). If there is a change in the service provided, resulting in the reclassification of assets under management as assets held for custody purposes or vice versa, this is recorded as an outflow of new money or an inflow of new money, respectively. Securities-related and currency-related changes in market value, interest income and dividends, fee charges, loan interest paid and the impacts of acquisitions and disposals in Vontobel's subsidiaries or businesses do not constitute inflows or outflows of assets.

37 Collective investment instruments

As an active asset manager, Vontobel manages a wide range of collective investment instruments. Vontobel's investment funds are classed as structured entities according to IFRS 12. Since Vontobel – as agent – acts primarily in the interests of investors, the investment funds are not consolidated. Shares of its proprietary investment funds are treated as financial instruments. There are no contractual or constructive obligations to provide financial or other forms of support for the investment funds.

Under the terms of the relevant investment regulations, Vontobel manages the fund assets on behalf of the investors who invested capital in the respective investment funds. Vontobel also performs various administrative functions for the investment funds. Vontobel receives fees for providing these services; the level of fees is in line with normal market rates. As of 31 December 2017, the volume of assets under management in Vontobel investment funds totalled CHF 42.6 bn (previous year CHF 37.4 bn). In the financial year 2017, Vontobel generated gross income of CHF 339.5 mn (previous year CHF 262.1 mn) from the provision of services to these investment funds.

The following table shows the book value of the shares of these investment funds held by Vontobel. The book value corresponds to the maximum risk of loss.

Collective investment instruments

CHF MN	TRADING PORTFOLIO ASSETS	OTHER FINANCIAL ASSETS AT FAIR VALUE	FINANCIAL INVESTMENTS	TOTAL
Book value as of 31.12.2016	0.1	47.9	0.3	48.3
Book value as of 31.12.2017	**3.3**	**30.8**	**0.6**	**34.7**

38 Future liabilities for finance lease, operating lease and the acquisition of fixed assets and intangible assets

CHF MN	OPERATING LEASE	31.12.2017 TOTAL	31.12.2016 TOTAL
Due within 1 year	28.0	28.0	26.3
Due within 1 to 2 years	24.9	24.9	25.2
Due within 2 to 3 years	24.6	24.6	22.9
Due within 3 to 4 years	24.3	24.3	22.8
Due within 4 to 5 years	23.6	23.6	22.5
Due in more than 5 years	76.2	76.2	69.9
Total minimum obligation	**201.6**	**201.6**	**189.6**

Of which CHF 0.6 mn relates to activities in Liechtenstein, which are expected to be sold in the first quarter of 2018 (see note 40).

In the year under review, general expense include CHF 27.5 mn (previous year CHF 29.7 mn) from operating lease. The future liabilities from operating leases mainly comprise lease agreements for premises occupied by Vontobel.

39 Acquisition of the Eastern European client portfolio of Notenstein La Roche

The acquisition of the Eastern European client portfolio of Notenstein La Roche was completed in December 2017. In the course of the acquisition, around 10 employees transferred to Vontobel and joined its existing Central & Eastern Europe team.

The assets and liabilities of the client portfolio were included in Vontobel's consolidated financial statements as follows:

Balance sheet

CHF MN	01.12.2017
Assets	
Cash	572.3
Loans	99.4
Intangible assets (excluding goodwill)	17.4
Goodwill	0.2
Other assets	0.1
Total assets	**689.4**
Liabilities	
Due to customers	671.7
Other liabilities	0.7
Equity	17.0
Total liabilities	**689.4**
Acquisition costs	17.0
of which paid in cash in 2017	*0.0*
of which recognized as a liability	*17.0*
Acquired cash and cash equivalents	572.3
Net inflow of cash and cash equivalents	**572.3**

The estimated acquisition price is CHF 17.0 mn and corresponds to a percentage of the income generated from the acquired clients in the first three years.

Intangible assets (excluding goodwill) comprise client relationships. The fair value was calculated using the multi-period excess earnings method. This is a level 3 valuation in the fair value hierarchy since various unobservable input parameters were used (e.g. future income and costs based on the business plan, attrition rate of acquired clients). The client relationships will be amortized over 10 years. With the exception of goodwill (residual amount), all other assets and liabilities consist of level 1 or level 2 valuations in the fair value hierarchy.

Goodwill was allocated to the Wealth Management division and an impairment test was carried out for the first time in the second half of 2017 (see note 20 "Goodwill and other intangible assets" for details.)

The inclusion of the Eastern European client portfolio of Notenstein La Roche in Vontobel's consolidated accounts – taking account of the amortization of client relationships in the financial year 2017 and excluding the below transaction and integration costs – resulted in an increase in operating income of CHF 1.2 mn and in net profit of CHF 0.7 mn. If the transaction had been completed on 1 January 2017, this would – all other things being equal – have resulted in operating income of CHF 1,071.7 mn and net profit of CHF 213.1 mn. Transaction and integration costs of CHF 1.9 mn were charged to the 2017 income statement.

40 Sale of the activities in Liechtenstein

In December 2017, Vontobel announced that as part of the focusing of its strategy in Wealth Management, its activities in Liechtenstein will be transferred to Kaiser Partner Privatbank AG. Both companies will cooperate closely in the securities business in the future. The transaction is expected to close in the first quarter of 2018. The assets and liabilities of the relevant activities are recorded in "Other assets" and "Other liabilities", respectively, and include the following items (excluding items relating to other Vontobel companies.)

Balance sheet

CHF MN	31.12.2017
Assets	
Cash	51.8
Due from banks	0.4
Positive replacement values	0.7
Loans	25.8
Financial investments	7.6
Other assets	0.3
Total assets	**86.6**
Liabilities	
Negative replacement values	0.6
Due to customers	138.3
Other liabilities	1.6
Total liabilities	**140.5**

The impact of the sale of the activities in Liechtenstein on the income statement is insignificant.

41 Employee benefit plans

In Switzerland, Vontobel insures its employees against the financial consequences of old age, disability and death primarily through two autonomous occupational pension funds (basic fund and supplementary fund). It also operates an employee welfare fund.

The Board of Trustees is the most senior governing body of the pension funds and is composed of employee and employer representatives. Pension benefits are funded through employer and employee contributions, which amount to between 3% and 18% or between 1.5% and 15.5% of the insured salary, depending on the age group. Upon reaching the ordinary retirement age of 64 years for women or 65 years for men, the pension funds give the insured the choice between receiving a lifelong pension and drawing part or all of their pension benefits in the form of a lump-sum payment. The annual pension is calculated on the basis of the pension assets available at the retirement date, multiplied by the applicable conversion rate. Depending on the year in which the insured was born and on the pension fund, the conversion rate at the ordinary retirement age is between 5.8% and 6.5%. The insured can take early retirement from the age of 58. Disability pensions and pensions for surviving spouses are defined as a percentage of the insured salary. The benefits and contributions are set out in the pension fund regulations, with the minimum benefits being prescribed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). In the event of a funding deficit according to the BVG, the employer can be required to pay contributions towards the restructuring of the pension fund. At the end of 2017, both pension funds had a funded status – as defined by the BVG – of over 100%.

The Board of Trustees of each pension fund is responsible for investing its assets. The investment strategy is defined in such a way as to enable pension benefits to be paid when they fall due.

The Swiss pension funds were set up according to the Swiss method of defined contributions but are classed as defined benefit plans under IAS 19 because both the actuarial risks and the investment risks are borne not only by the insured but also by the company.

In the case of defined benefit plans, the pension obligations and expenses are determined by actuarial appraisals prepared by outside experts according to the projected unit credit method. The appropriate calculations are performed on an annual basis. The net amount recognized in the balance sheet corresponds to the funding surplus or funding deficit of the defined benefit pension plans, taking account of any possible restrictions on the amount of a surplus that can be recognized as an asset (asset ceiling). The net interest based on the net liability or net asset of the defined benefit pension plans, the current and (due to plan amendments or plan curtailments) past service costs, the administration costs (excluding asset management costs) and the gains and losses arising from plan settlements are recorded in personnel expense. Actuarial gains and losses on pension liabilities as well as the return on plan assets and changes due to the asset ceiling (following the deduction of the sums recorded in net interest) are recognized in other comprehensive income.

The most recent actuarial calculation according to IAS 19 was carried out for these pension plans by independent experts as of 1 May 2017. Past service costs in the previous year include the impacts of changes to the regulations governing pension funds in Switzerland (primarily a reduction of conversion rates). The gain from the plan settlement in the previous year is attributable to the reduction of headcount in connection with the integration of the Vescore Group. There were no plan amendments or plan settlement in the year under review. There were no plan curtailments in the year under review or in the previous year.

Vontobel has foreign pension plans in Liechtenstein, the UK, Italy, Hong Kong, Luxembourg, Singapore, Spain, Dubai, Australia and the US that are classed as defined contribution plans under IAS 19. Vontobel has individual pension commitments in Germany, for which the corresponding provisions have been recognized.

No actuarial calculations are required in order to record defined contribution plans in the balance sheet. The contributions to these types of pension plans are recorded in the income statement when the employees render the corresponding services, which is generally in the year in which the contributions are paid.

Defined benefit pension plans in Switzerland

CHF MN	PENSION OBLIGATIONS	PLAN ASSETS	ASSET CEILING	TOTAL
Total at 01.01.2017	**–881.4**	**901.4**	**0.0**	**20.0**
Current service cost	–31.5			–31.5
Past service cost	0.0			0.0
Gain / losses on settlement	0.0	0.0		0.0
Interest income / (interest expense)	–3.9	4.0	–	0.1
Administration cost	–0.4			–0.4
Others	0.0	0.0		0.0
Total cost recognized in personnel expense	**–35.8**	**4.0**	**–**	**–31.8**
Actuarial gains / losses on obligations				
of which changes in financial assumptions	–27.3			–27.3
of which changes in demographic assumptions	0.0			0.0
of which experience adjustments	–5.1			–5.1
Return on plan assets excluding interest income		44.3		44.3
Change in effect of asset ceiling excluding interest			–	–
Total cost recognized in other comprehensive income	**–32.4**	**44.3**	**–**	**11.9**
Employee contributions	–19.5	19.5		–
Employer contributions		30.4		30.4
Benefits paid resp. deposited	–0.2	0.2		–
Business combination	–4.7	4.1		–0.6
Others	0.0	0.0		0.0
Total at 31.12.2017	**–974.0**	**1,003.9**	**0.0**	**29.9**
of which active members	*724.5*			
of which pensioners	*249.5*			
of which reported in Other assets				*29.9*
of which reported in Other liabilities				*0.0*

The component of personnel expense comprising pension and other employee benefit plans totalled CHF 35.8 mn, consisting of CHF 31.8 mn for defined benefit pension plans and CHF 4.0 mn for defined contribution pension plans. Pension obligations and costs are presented as negative amounts.

CHF MN	PENSION OBLIGATIONS	PLAN ASSETS	ASSET CEILING	TOTAL
Total at 01.01.2016	**–862.8**	**796.1**	**0.0**	**–66.7**
Current service cost	–33.5			–33.5
Past service cost	12.3			12.3
Gain / losses on settlement	3.9	0.0		3.9
Interest income / (interest expense)	–6.9	6.4	–	–0.5
Administration cost	–0.4			–0.4
Others	0.0	0.0		0.0
Total cost recognized in personnel expense	**–24.6**	**6.4**	**–**	**–18.2**
Actuarial gains / losses on obligations				
of which changes in financial assumptions	61.1			61.1
of which changes in demographic assumptions	12.8			12.8
of which experience adjustments	–15.3			–15.3
Return on plan assets excluding interest income		19.5		19.5
Change in effect of asset ceiling excluding interest			–	–
Total cost recognized in other comprehensive income	**58.6**	**19.5**	**–**	**78.1**
Employee contributions	–16.5	16.5		–
Employer contributions		36.4		36.4
Benefits paid resp. deposited	9.6	–9.6		–
Business combination	–47.7	37.6		–10.1
Others	2.0	–1.5		0.5
Total at 31.12.2016	**–881.4**	**901.4**	**0.0**	**20.0**
of which active members	*635.7*			
of which pensioners	*245.7*			
of which reported in Other assets				*22.1*
of which reported in Other liabilities				*–2.1*

The component of personnel expense comprising pension and other employee benefit plans totalled CHF 22.2 mn, consisting of CHF 18.2 mn for defined benefit pension plans and CHF 4.0 mn for defined contribution pension plans. Pension obligations and costs are presented as negative amounts.

Composition of plan assets

CHF MN	31.12.2017	31.12.2016
Quoted market price		
Cash and cash equivalents	86.5	87.4
Equity instruments	190.6	176.4
Debt instruments	220.7	242.1
Real estate	40.7	41.1
Derivatives	0.0	0.2
Equity funds	166.1	120.2
Bond funds	121.9	100.4
Real estate funds	75.9	55.1
Commodities funds	43.3	30.6
Other funds	46.1	25.9
Others	12.1	12.4
Total fair value	**1,003.9**	**891.8**
Non-quoted market price		
Debt instruments	0.0	1.8
Real estate	0.0	7.8
Others	0.0	0.0
Total fair value	**0.0**	**9.6**
Total plan assets at fair value	**1,003.9**	**901.4**
of which registered shares of Vontobel Holding AG	*0.0*	*0.0*
of which debt instruments of Vontobel	*0.0*	*0.0*
of which credit balances with Vontobel companies	*62.9*	*86.8*
of which securities lent to Vontobel	*0.0*	*0.0*

Maturity profile of defined benefit obligation

IN YEARS	31.12.2017	31.12.2016
Weighted average duration of defined benefit obligation	11.0	10.8

Actuarial assumptions

Demographic assumptions (e.g. probability of death, disability or termination) are based on the BVG 2015 actuarial tables (cohort life tables), which draw on observations of large insurance portfolios in Switzerland over a period of several years, and are adapted to reflect conditions specific to Vontobel or empirical values where necessary.

The discount rate is used to determine the present value of pension obligations and is based on the yields on high-quality corporate bonds in Swiss francs. Until the end of 2015, the interest rate used to discount all pension obligations was the rate corresponding to the average duration of the pension obligations of the actively insured and pensioners. In the first half of 2016, the calculation of the present value of pension obligations was refined. This refinement was treated as a change in accounting estimates in accordance with IAS 8. For the yields on this type of corporate bonds a regression line is calculated using a linear regression analysis. The individual pension obligations are then discounted using the interest rate on the regression line that applies to their duration.

In the following table, the item “Discount rate” shows the constant interest rate that would result in the same present value of pension obligations as if a discount were applied using the interest rates on the regression line. The plan-specific sensitivities are related to this interest rate (see below). The item “Interest rate used to determine net interest income” shows the interest rate that will be used in the following year to determine the interest income on plan assets and the interest expense on pension obligations. This interest rate corresponds to the interest rates on the regression line weighted with the individual discounted pension obligations.

Actuarial assumptions

IN %	31.12.2017	31.12.2016
Discount rate [1]	1.2	1.3
Interest rate used to determine net interest income	0.4	0.5
Expected rate of salary increases	1.0	1.0
Expected rate of pension increases	0.0	0.0

1 In the Annual Report 2016, the item “Discount rate” showed the interest rate used to determine net interest income in the financial year 2017. For reasons of transparency, both the discount rate used to determine the present value of pension obligations and the interest rate used to determine net interest income are now shown.

Estimated contributions to defined benefit pension plans in the following year

CHF MN	31.12.2017	31.12.2016
Employer contributions	28.2	26.3
Employee contributions	19.3	16.6

Plan-specific sensitivities
The following overview shows the impacts of an isolated change in the main actuarial assumptions on the present value of pension obligations as of 31 December 2017 and 31 December 2016. The discount rate was reduced/increased by 0.25 percentage points and the expected rate of salary increases was reduced/increased by 0.5 percentage points. The sensitivity relating to mortality was calculated using a method where mortality was reduced or increased by a set factor so that life expectancy for most age categories was increased or reduced by approximately one year. The sensitivity analyses were produced in the same way as in the previous year.

Plan-specific sensitivities

CHF MN	DEFINED BENEFIT OBLIGATION 31.12.2017	DEFINED BENEFIT OBLIGATION 31.12.2016
Current actuarial assumptions	974.0	881.4
Discount rate		
Reduction of 25 basis points	1,002.0	906.2
Increase of 25 basis points	947.7	858.1
Salary increases		
Reduction of 50 basis points	967.3	875.3
Increase of 50 basis points	980.9	887.7
Life expectancy		
Reduction in longevity by one year	958.2	867.0
Increase in longevity by one additional year	989.6	895.6

42 Other employee benefits payable in the long term

Other employee benefits payable in the long term exist in the form of long service awards and sabbatical leaves. Analogously to the defined benefit pension plans, actuarial calculations have been performed and an accrued expense recognized for these benefits.

Other employee benefits payable in the long term

CHF MN	31.12.2017	31.12.2016
Accrued expense for long service awards and sabbatical leaves	1.5	1.4

43 Significant foreign currency rates

For the significant currencies, the following rates were used:

Significant foreign currency rates

	YEAR END RATES		AVERAGE RATES	
	31.12.2017	31.12.2016	2017	2016
1 EUR	1.17018	1.07200	1.11257	1.08904
1 GBP	1.31825	1.25585	1.27350	1.33938
1 USD	0.97450	1.01635	0.98252	0.98835

44 Events after the balance sheet date

No events have occurred since the balance sheet date that affect the relevance of the information provided in the year 2017 financial statements and would therefore need to be disclosed.

45 Dividend payment

The Board of Directors will propose the payment of a dividend of CHF 2.10 per registered share with a par value of CHF 1.00 to the General Meeting of Shareholders of Vontobel Holding AG on 18 April 2018. This corresponds to a total payment of CHF 117.6 mn.[1]

1 Shares entitled to a dividend as of 31.12.2017

46 Authorization of the consolidated accounts

The Board of Directors discussed and approved the present annual report during the board meeting on 6 February 2018. It will be submitted for approval at the General Meeting on 18 April 2018.

Segment reporting

47 Segment reporting principles

External segment reporting reflects the organizational structure of Vontobel as well as internal management reporting, which forms the basis for the assessment of the financial performance of the segments and the allocation of resources to the segments.

Vontobel comprises the following divisions, which represent the operating and reportable segments according to IFRS 8. They provide the following services to clients:

Wealth Management
Wealth Management encompasses portfolio management services for private clients, investment advisory, custodian services, financial advisory services relating to legal, inheritance and tax matters, lending against collateral, mortgage loans, pension advice and wealth consolidation services.

Asset Management
Asset Management specializes in active asset management, and is positioned as a multi-boutique provider. Its products are distributed to institutional clients, indirectly through wholesale channels, and also by cooperation partners.

Investment Banking
Investment Banking focuses on the structured products and derivatives business, services for external asset managers, brokerage, corporate finance, securities and foreign exchange trading, and securities services supplied by Transaction Banking.

Corporate Center
The Corporate Center provides core services for the divisions, and comprises the support units Operations, Finance & Risk, and Corporate Services as well as the Board of Directors support units.

Income, expenses, assets and liabilities are allocated to the divisions on the basis of client responsibility or according to the principle of origination. Items that cannot be allocated directly to the divisions are reported in the Corporate Center accounts. The Corporate Center also includes consolidating entries.

The costs of the services supplied internally are reported in the item “Services from/to other segment(s)” as a reduction in costs for the service provider and as an increase in costs for the recipient, based on agreements that are renogiated periodically according to the same principle as if they were concluded between independent third parties (“at arm’s length”).

Segment reporting

CHF MN	WEALTH MANAGEMENT	ASSET MANAGEMENT	INVESTMENT BANKING	CORPORATE CENTER	31.12.2017 TOTAL
Net interest income	38.7	0.1	10.0	19.9	68.7
Other operating income	233.9	434.8	318.8	4.1	991.6
Total operating income	**272.6**	**434.9**	**328.8**	**24.0**	**1,060.3**
Personnel expense	113.1	172.2	115.3	132.0	532.6
General expense	17.1	43.6	54.1	90.2	205.0
Services from / to other segment(s)	77.9	49.5	41.6	–169.0	0.0
Depreciation of property, equipment and intangible assets	3.2	6.5	5.5	45.8	61.0
Valuation adjustments, provisions and losses	0.8	0.3	0.2	1.1	2.4
Total operating expense	**212.1**	**272.1**	**216.7**	**100.1**	**801.0**
Segment profit before taxes	**60.5**	**162.8**	**112.1**	**–76.1**	**259.3**
Taxes					50.3
Net profit					**209.0**
of which minority interests					*6.6*
Additional information					
Segment assets	3,051.0	374.4	9,694.5	9,783.8	22,903.7
Segment liabilities	7,570.5	801.7	12,528.6	382.4	21,283.2
Allocated equity according to BIS[1]	172.7	272.6	227.8	93.8	766.9
Client assets (CHF bn)	45.8	121.3	82.2	–2.8	246.5
Net new money (CHF bn)	1.0	3.6	1.4	–0.1	5.9
Capital expenditure	0.5	0.0	1.5	73.3	75.3
Employees (full-time equivalents)	408.2	404.9	383.1	492.0	1,688.2

1 The allocation of the regulatory capital required in accordance with BIS standards to the individual segments is based on the principle of origination. With regard to capital requirements for credit risks related to balance sheet assets, allocation is based on guidelines analogous to those used for reporting segmental assets. The prescribed deduction of CHF 291.1 mn from core capital for intangible assets has been included in the figures above of the divisions Wealth Management and Asset Management. The valuation adjustments of own liabilities are assigned to the Investment Banking division. The deduction of CHF 79.6 mn from core capital for treasury shares is not included in the figures above.

Information on regions[1]

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	AMERICAS	OTHER COUNTRIES[2]	CONSOLIDA-TION	31.12.2017 TOTAL
Operating income related to external customers	533.4	250.5	126.9	149.5		1,060.3
Assets	15,398.1	734.7	131.8	7,949.7	–1,310.6	22,903.7
Property, equipment and intangible assets	366.5	80.2	2.6	1.5		450.8
Capital expenditure	73.6	0.6	0.5	0.6		75.3

1 Reporting is based on operating locations.
2 Mainly U.A.E.

Segment reporting

CHF MN	WEALTH MANAGEMENT	ASSET MANAGEMENT	INVESTMENT BANKING	CORPORATE CENTER	31.12.2016 TOTAL
Net interest income	25.3	0.3	5.1	37.0	67.7
Other operating income	219.0	414.4	272.2	107.8	1,013.4
Total operating income	**244.3**	**414.7**	**277.3**	**144.8**	**1,081.1**
Personnel expense [1]	104.1	158.2	99.8	122.7	484.8
General expense	13.6	41.9	45.3	88.9	189.7
Services from / to other segment(s)	75.4	46.5	42.9	–164.8	0.0
Depreciation of property, equipment and intangible assets	3.1	4.2	4.6	50.4	62.3
Valuation adjustments, provisions and losses	0.9	0.4	0.1	21.6	23.0
Total operating expense	**197.1**	**251.2**	**192.7**	**118.8**	**759.8**
Segment profit before taxes	**47.2**	**163.5**	**84.6**	**26.0**	**321.3**
Taxes					56.9
Net profit					**264.4**
of which minority interests					*4.6*
Additional information					
Segment assets	2,380.5	383.0	5,409.0	11,221.4	19,393.9
Segment liabilities	6,985.4	685.9	8,513.3	1,695.2	17,879.8
Allocated equity according to BIS [2]	142.5	270.5	191.3	99.6	703.9
Client assets (CHF bn)	40.0	101.7	57.4	–3.7	195.4
Net new money (CHF bn)	2.0	–13.2	0.6	0.0	–10.6
Capital expenditure	0.1	2.7	0.0	39.3	42.1
Employees (full-time equivalents)	387.0	397.5	372.8	517.1	1,674.4

1 Personnel expense includes the impacts of changes to Swiss pension fund regulations in the amount of CHF 11.1 mn (primarily the reduction of conversion rates). This positive impact was broken down according to the employer contributions made during the reporting period and allocated to the divisions (Wealth Management CHF 3.0 mn; Asset Management CHF 2.0 mn; Investment Banking CHF 2.6 mn; Corporate Center CHF 3.5 mn).
2 The allocation of the regulatory capital required in accordance with BIS standards to the individual segments is based on the principle of origination. With regard to capital requirements for credit risks related to balance sheet assets, allocation is based on guidelines analogous to those used for reporting segmental assets. The prescribed deduction of CHF 279.0 mn from core capital for intangible assets has been included in the figures above of the divisions Wealth Management and Asset Management. The valuation adjustments of own liabilities are assigned to the Investment Banking division. The deduction of CHF 93.8 mn from core capital for treasury shares is not included in the figures above.

Information on regions [1]

CHF MN	SWITZERLAND	EUROPE EXCL. SWITZERLAND	AMERICAS	OTHER COUNTRIES [2]	CONSOLIDA-TION	31.12.2016 TOTAL
Operating income related to external customers	590.1	213.2	154.2	123.6		1,081.1
Assets	13,845.4	597.6	135.3	6,415.1	–1,599.5	19,393.9
Property, equipment and intangible assets	347.8	80.0	3.7	1.4		432.9
Capital expenditure	38.5	2.1	0.8	0.7		42.1

1 Reporting is based on operating locations.
2 Mainly U.A.E.

Subsidiaries and participations

Major fully consolidated companies

	REGISTERED OFFICE	BUSINESS ACTIVITY	CURRENCY	PAID-UP SHARE CAPITAL MN	SHARE OF VOTES AND CAPITAL IN %
Vontobel Holding AG	Zurich	Holding	CHF	56.9	Parent company
Vontobel Beteiligungen AG	Zurich	Holding	CHF	10.0	100
Bank Vontobel AG	Zurich	Bank	CHF	149.0	100
Bank Vontobel Europe AG	Munich	Bank	EUR	40.5	100
Bank Vontobel (Liechtenstein) AG	Vaduz	Bank	CHF	20.0	100
Vontobel Swiss Wealth Advisors AG	Zurich	Wealth management	CHF	0.5	100
Vontobel Wealth Management (Hong Kong) Ltd.	Hong Kong	Wealth management	HKD	200.0	100
Vontobel Fonds Services AG	Zurich	Fund management	CHF	4.0	100
Vontobel Asset Management AG	Zurich	Fund & Portfolio management	CHF	20.0	100
Vontobel Asset Management S.A.	Luxembourg	Portfolio management	EUR	2.6	100
Vontobel Asset Management UK Holdings Ltd.	London	Holding	GBP	26.0	100
TwentyFour Asset Management LLP	London	Portfolio management	GBP	1.9	60
Vontobel Asset Management, Inc.	New York	Portfolio management	USD	6.5	100
Vontobel Asset Management Asia Pacific Limited	Hong Kong	Financial Advisor	HKD	7.0	100
Vontobel Asset Management Australia Pty. Ltd.	Sydney	Portfolio management	AUD	1.0	100
Vontobel Securities AG	Zurich	Brokerage	CHF	2.0	100
Vontobel Financial Products GmbH	Frankfurt	Issues	EUR	0.05	100
Vontobel Financial Products Ltd.	Dubai	Issues	USD	2.0	100
Vontobel Financial Products (Asia Pacific) Pte. Ltd.	Singapore	Distribution deritrade®	SGD	0.3	100
Vontobel Limited	Hong Kong	Brokerage	HKD	25.0	100

The share of voting rights held corresponds to the equity interest held.
Only the shares of Vontobel Holding AG are listed on the Swiss Exchange (SIX). Please see pages 8 and 227 for more detailed information.
In the case of regulated subsidiaries, part of the capital is not available for dividends or transfers due to regulatory requirements (e.g. Basel III). These restrictions do not have any material impact on Vontobel's activities.

Associated companies

	REGISTERED OFFICE	BUSINESS ACTIVITY	CURRENCY	PAID-UP SHARE CAPITAL MN	SHARE OF VOTES AND CAPITAL IN %
Deutsche Börse Commodities GmbH	Frankfurt	Issues	EUR	1.0	16.2

Changes in the scope of consolidation

Participations removed from the scope of consolidation

PARTICIPATION	REGISTERED OFFICE	REASON FOR REMOVAL
Vescore AG	St. Gallen	Merged with Vontobel Asset Management AG
Vescore Deutschland GmbH	Munich	Merged with Vontobel Asset Management S.A.
Vescore Indices GmbH	St. Gallen	Merged with Vontobel Asset Management AG

Statutory Banking Regulations

Vontobel's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). FINMA stipulates that banks domiciled in Switzerland that report their financial statements according to US GAAP or IFRS must explain any material differences between Swiss accounting regulations for banks (Banking Ordinance and FINMA Circular 2015/01, referred to hereinafter as "Swiss GAAP") and the reporting standard used. The most significant differences between IFRS and Swiss GAAP that are of relevance to Vontobel are as follows:

Financial assets available-for-sale
Under IFRS, financial assets available-for-sale will be measured at the fair value. Changes in the fair value will be recognized in other comprehensive income, until the financial asset is disposed of, or its value is deemed to be impaired. On the disposal of an available-for-sale financial asset, the income previously recognized in other comprehensive income is transferred to the income statement. As soon as a financial asset available-for-sale is deemed to be impaired, the cumulative unrealized loss previously entered in other comprehensive income will be reclassified to the income statement. Under Swiss GAAP, these kinds of financial assets are recorded at the lower of amortized cost or market. Impairment losses, any reversal of impairment losses as well as profits and losses from disposals are recognized as "Other ordinary income".

Other financial assets and liabilities measured at fair value through profit and loss (Fair Value Option)
According to IFRS, under certain conditions financial instruments can be assigned to the Other financial assets or liabilities category measured at fair value through profit and loss. These financial assets and liabilities are carried at fair value in the balance sheet, and income from the financial instruments is recognized in the income statement. Swiss GAAP prescribes a narrower interpretation of the fair value option. It is intended primarily to prevent an accounting mismatch when recognizing structured products issued by the company itself. Under Swiss GAAP, changes in fair value due to a change in the Group's own credit risk are not recorded in the income statement.

Goodwill
IFRS stipulates that goodwill cannot be amortized and must, instead, be tested for impairment at least once annually. Under Swiss GAAP, goodwill is amortized on a straight-line basis over five years. In justified cases, the amortization period can be a maximum of 10 years.

Cash flow hedges
As part of its hedge accounting, Vontobel uses interest rate swaps as cash flow hedges. Under IFRS, the change in fair value of the effective portion of interest rate swaps is recognized in other comprehensive income. As soon as the hedged cash flows occur, cumulative unrealized income is transferred to the income statement. Under Swiss GAAP, the change in fair value of the effective portion of interest rate swaps is recognized in the compensation account. As soon as hedged cash flows occur, cumulative unrealized income is transferred to the income statement.

Pension funds
In principle, Swiss GAAP allows the relevant IFRS standard (IAS 19) to be applied. Unlike IAS 19, however, Swiss GAAP disallows entries not affecting the income statement.

Extraordinary profit
Under IFRS, all items of income and expense are allocated to ordinary operating activities. Under Swiss GAAP, items of income and expense are classified as extraordinary if they are not recurring and are not related to operating activities.

Other differences in presentation
Under IFRS, the consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of equity, the statement of cash flows and the notes. Under Swiss GAAP, there is no requirement to present a statement of comprehensive income. In addition, numerous other differences in presentation exist.

Report of the statutory auditor

Ernst & Young AG
Maagplatz 1
P.O. Box
CH-8010 Zurich

Telefon +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the General Meeting of
Vontobel Holding AG, Zurich

Statutory auditor's report on the audit of the consolidated financial statements

Zurich, 6 February 2018

Opinion

We have audited the consolidated financial statements of Vontobel Holding AG and its subsidiaries (the Group), which comprise the income statement, statement of comprehensive income, balance sheet, statement of equity, cash flow statement and notes (pages 128 to 207) for the year then ended at 31 December 2017, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 120 to 207) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Fair value of financial instruments
— Area of focus

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values can be based on quoted prices in active markets (level 1) or on a valuation model where significant input parameters can be observed directly or indirectly in the market (level 2), or on a valuation model where significant input parameters cannot be observed in the market (level 3).

The use of valuation models is influenced to a significant extent by the assumptions applied, including interest rates, forward rates and swap rates, spread curves, volatility and estimates of future cash flows. The determination of these assumptions involves the exercise of significant judgment.

In its consolidated balance sheet as of 31 December 2017, Vontobel Holding AG reports total financial assets at fair value of CHF 9.5 bn and financial liabilities at fair value of CHF 9.4 bn. In view of the inherent exercise of judgment and the significance of these balance sheet items in the financial statements of Vontobel Holding AG, their valuation is of particular importance from an audit perspective.

The corresponding accounting principles applied are explained by Vontobel Holding AG on pages 129, 130 and 184 to 189 of the Annual Report. Please also refer to notes 14, 16 and 32 of the Notes to the consolidated financial statements.

— Our audit response

Our audit procedures included an evaluation of the design and the operational effectiveness of relevant key controls. In particular, they comprised the approval processes for products and valuation models, as well as the independent price verification.

Furthermore, we performed procedures to evaluate the assumptions used and tested the valuation of financial instruments using independent valuation models. Based on a sample and using comparisons with third-party sources, we tested the fair values that were used and that were directly available in an active market.

Goodwill and other intangible assets

— Area of focus

Vontobel Holding AG accounts for the acquisition of subsidiaries using the acquisition method, whereby the acquisition costs are measured at the fair value of the consideration at the acquisition date. If the fair value of the consideration exceeds the fair value of the net assets acquired, goodwill is recognized and assigned to one or more cash-generating units. Goodwill is subject to an annual impairment test. The valuation of net assets acquired that is carried out in connection with the acquisition of a subsidiary, the allocation of goodwill acquired to cash-generating units, and the recoverable value that is determined as part of the impairment test, are influenced to a significant extent by the assumptions that are used, the determination of which involves the exercise of significant judgment.

The client relationships and brands acquired during business combinations are recognized as other intangible assets and depreciated over their estimated useful life. If events or circumstances indicate that the carrying amount may be impaired, an impairment test is carried out. The fair values of these intangible assets are determined on the basis of valuation methods that use various input parameters that cannot be observed. The determination of these input parameters and the estimation of useful life involve the exercise of significant judgment.

In its consolidated balance sheet as of 31 December 2017, Vontobel Holding AG reports goodwill totaling CHF 226.8 mn and other intangible assets totaling CHF 64.3 mn. In the financial year 2017, a subsidiary of Vontobel Holding AG acquired the Business with Eastern European Clients of Swiss Private Bank. Due to the acquisition and the inherent exercise of judgment, the identification and the valuations of goodwill and other intangible assets are of particular importance from an audit perspective.

The corresponding accounting principles applied are explained by Vontobel Holding AG on pages 128, 129 and 132 of the Annual Report. Please also refer to notes 20 and 39 of the Notes to the consolidated financial statements.

— Our audit response

In the course of our audit, we examined the valuation models used as well as significant assumptions. In particular, they comprised valuation multipliers related to assets under management, gross margins, cash flow projections, discount rates, useful life, etc. We assessed these assumptions on the basis of current market conditions.

With regard to the acquisition of the Eastern European Clients of a Swiss Private Bank, we examined the reported amount and the valuations of the identified intangible assets and goodwill. In addition, we assessed the disclosure of the acquisition in the notes to the consolidated financial statements.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report

Report on other legal and regulatory requirements

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

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

Ernst & Young AG

Patrick Schwaller
Licensed audit expert
(Auditor in charge)

Stefan Lutz
Licensed audit expert

PARTIES

THE ISSUER'S REGISTERED OFFICE	OUR GUARANTOR'S REGISTERED OFFICE
Gotthardstrasse 43 CH-8002 Zurich, Switzerland	Gotthardstrasse 43 CH-8002 Zurich, Switzerland

SPONSOR

Vontobel Limited
1901 Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

AUDITORS TO THE ISSUER AND THE GUARANTOR

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8010 Zurich