PKB Privatbank SA

2017
Annual Report
60Th Year Of Activity

CONTENTS

GOVERNING BODIES OF PKB SA

Board of Directors	Edio Delcò	Taverne - Torricella (TI)	*Chairman* [3]
	Henry Peter [2]	Lugano (TI)	*Chairman*
	Massimo Trabaldo Togna	Milano (I)	*Vice-Chairman*
	Francesco Bellini Cavalletti [1]	Milano (I)	
	Jean-Blaise Conne [1] [3]	Lutry (VD)	
	Giovanni Leonardi [1]	Bodio (TI)	
	Pierre Poncet [1]	Vésenaz (GE)	
	Jean Philippe Rochat [2]	Épalinges (VD)	
	Giovanni Vergani [1] [3]	Ruvigliana (TI)	
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Internal Audit	Mirko Angelini		*Lead Auditor*
	Diego Pecorone		*Internal Auditor*
Statutory auditor External Auditor	Ernst & Young SA		
Executive Board	Umberto Trabaldo Togna		*Chief Executive Officer*
	Ettore Bonsignore		*Executive Vice President*
	Fabrizio Cerutti		*Executive Vice President*
	Marco Malcontenti		*Executive Vice President*
	Matteo Saladino		*Executive Vice President*
	Lorenzo Tavola		*Executive Vice President*

[1] Independent directors pursuant to FINMA circular 08/24
[2] Until 27.4.2017
[3] From 27.4.2017

Management (Situation at 1 April 2018)

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Gennaro Caracciolo di Vietri
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Oberto della Torre di Lavagna
Francesco Dolfi
Flavio Facchin
Massimo Falletta
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Raffaella Jaquet
Andrea Luchetti
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Fiorenzo Indi
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Catherine Kuhn
Michael Maennlin
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Sabina Monn Diakoff
Filippo Moor
Pierluigi Petrucci
Nicholas Porter
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Cristiana Beretta
Francesco Bettosini
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Cristina Chendi
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Salvatore Dell'Aira
Andrea Gerli
Margrith Goydke Müller
Stefano Jermini
René Kobel
Alessandro Lanzara
Matteo Lurati
Daniele Mallozzi
Stefano Marcotullio
Alberto Masciadri
Massimo Mattioli
Edy Muscionico
Antonella Pelizzari
Luca Radaelli
Emilio Re
Carlo Reichlin
Samuele Rudelli
Carmine Salerno
Tiziana Torri
Guido Uglietti
Sergio Vincentelli
Sabrina Zito-Salvatore

PKB Geneva

Director Pascal Dubey

PKB Zürich

Director Bernardo Brunschwiler

PKB Bellinzona

Deputy Director Mauro Marchesi

PKB Lausanne

Director Andrew Gilbert

Nalini Malani

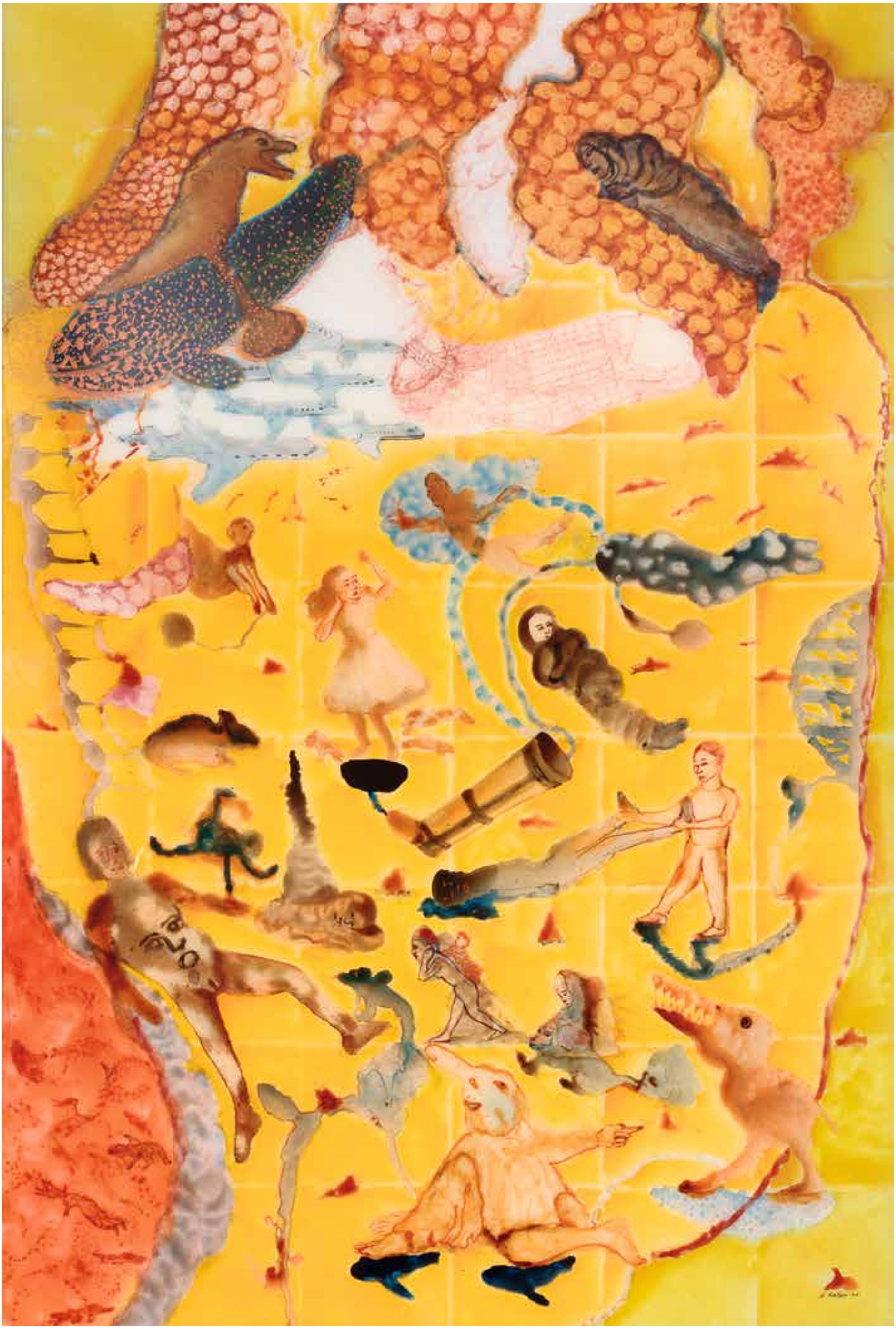
Alice in the Map of Lohar Chawl, 2006
Acrylic and glaze
painted on the reverse of a sheet of
183 x 122 cm acrylic.

Born in Karachi in 1946, Nalini Malani, one of India's most prominent artists who has managed to combine tradition with modernity, was brought to live in Calcutta a few months after her birth and shortly before India's partition in 1947. Here she and her family lived a hard life as refugees, an experience that had a profound effect on her childhood and that formed the basis of her artistic training.

Her work includes paintings, videos and installations where video and projections of shadows overlap to create striking effects. Having grown up in a country that is a melting pot of ethnic groups, languages and religions, she focuses on the trauma caused by endless conflicts between members of different religions and ethnic groups. This history of constant division and chaos serves as the basis for her works.
She combines historical and cultural sources with her own personal experiences to create a story of epic proportions. Images of Palestine, Bosnia and the American destruction of Hiroshima and Nagasaki are projected onto Indian references, mixing universal concepts with specific historical and personal aspects. Most of her works are centred around female figures from EUROpean or Indian tradition: Alice, the character created by Lewis Carroll, and Medea, the enchantress of Greek mythology; Sita, daughter of the Earth Mother Avni, who, betrayed by her husband returns to the Earth from whence she came, and Mahadeviyakka, a young girl from the 22th-century, betrothed to a rich older man, who defied her family, rejecting her arranged marriage by claiming to be already married to the God Shiva. In Malani's works, these figures appear in isolation or intertwined, not necessarily in their expected contexts but in multi-layered narratives open to interpretation. All the works juxtapose different visions from the realms of memory, myth, desire and fantasy, mixing these with specific references to local and global politics, and to gender and identity issues.

Alice in the Map of Lohar Chawl, the painting owned by the PKB Collection, refers to the most popular market in Mumbai, originally an iron smiths market, near which Nalini Malani had her studio for many years. The Alice in this painting (and those in the same series) is a girl who visits a country rich with wonders just like those described in the novel. The marketplace's confusion clearly influenced this work, as it did all those produced by the artist in her years of close contact with the area.

The works of Nalini Malani have been displayed in numerous art galleries and in important museum exhibitions including: *La rébellion des morts*, Centre Pompidou (2017) and Castello di Rivoli (May – November 2018); *Transgressions*, *Stedelijk Museum*, Amsterdam (2017); *You Can't Keep Acid in a Paper Bag*, Kiran Nadar Museum of Art, New Delhi (2014); *Cassandra's Gift*, Vadhera Art Gallery, New Delhi (2014); Documenta 13, Kassel 2012; *Gamepieces*, Museum of Modern Art, New York, (2003/2009).



PKB

BOARD OF DIRECTORS' REPORT

Dear Shareholders,
2017 was characterised by positive growth generally in the world economy. With the exception of the United Kingdom, which suffered a slowdown due to the uncertainty of the Brexit process, other developed economies increased their rate of growth or maintained a relatively high cruising speed. The EURozone accelerated further and produced the highest growth since 2007, getting closer to full production capacity. Due to the weakening of the franc, the Swiss economy continued its improvement and, at year-end, recovered a rate of growth consistent with its potential, enabling it to overcome the currency shocks of 2011 and 2015. Despite having exceeded full employment, the United States recorded improved growth, with no inflationary pressures. Fiscal measures and an ultra-expansive monetary policy allowed Japan to grow enough to create tensions on the labour market. In the emerging world, China maintained growth rates slightly higher than in 2016, in spite of the expected slowdown. India successfully overcame the shocks of demonetization and the introduction of new indirect taxation, rediscovering its traditionally high pace of growth. Lastly, Russia and Brazil finally emerged from deep recessions. In the course of the year, the central banks of the developed economies maintained an expansive attitude. With three increases in the reference rate, the Fed reduced, but did not completely undo, the expansive nature of its policy. Faced with the absence of inflation for structural reasons, the ECB and the BOJ maintained ultra-expansive monetary policies. In Switzerland, the SNB continued its negative key rate policy.

On the currency market, the EURO, favoured by the steady acceleration of growth in the EURozone and by the removal of the political uncertainty following the elections in France, significantly appreciated against the US Dollar (+14.1%) and against the Swiss franc (+9.2%). The maintenance of monetary stimuli and the synchronous growth of the world economy have forced an upturn in the equity markets. The S&P 500 index of the New York Stock Exchange and the Topix index of the Tokyo stock exchange showed strong rises, respectively +19.4% and +19.7%. EURopean stocks were affected by the depreciation of the dollar (Stoxx EURope 600 index +7.7%), while those of emerging markets benefited (MSCI Emerging +34.3%). Government bonds in euros (Citi indices) suffered as a result of the exceptionally low level of interest rates and produced a result of almost nil (+0.2%), those in American dollars, on the other hand, recorded a slightly positive performance (+2.3%). Positive macro-economic trends reduced credit risks, as a result of which investment grade corporate bonds in euros and dollars (Citi indices) recorded increases respectively of +1.8% and +6.5%, both higher than the respective government securities.

2017 was a transition year for PKB, characterised by the implementation of the strategic reorientation started in 2016 and by a profound revision of the Group's governance system. This follows the acquisition of a majority stake in Cassa Lombarda Spa previously held by the parent company COFI SA. In the course of the year, moreover, in order to prepare the Group to face the increasingly significant challenges of the future and to seize the opportunities that the market will present, managerial structures were reinforced with the appointment, in PKB, of a new Head of Private Banking and the arrival of a new CRO, a new CFO and a head of French-speaking Switzerland, as well as, in Cassa Lombarda, the arrival of a Deputy Managing Director.

At year-end 2017, the PKB Group managed client assets of CHF 12.9 billion, net of double counts, while shareholders' equity rose to CHF 413.3 million with a Tier 1 Ratio at 26.77% for PKB and at 23.07% for the Group, being double the legal requirement.
After prudential provisions, consolidated net profit at 31.12.2017 totalled CHF 8.3 million, compared with CHF 9.7 million the previous year, while the figure for PKB alone was CHF 4.8 million.

The results of the financial year were influenced by significant extraordinary costs incurred in relation to the strategic changes undertaken in the last two years, as well as by the reduction in revenues caused by the outflow of funds of clients who were no longer aligned with the strategic objectives of the Bank.

In January 2018, the Bank acknowledged, with satisfaction, the conclusion of the enforcement procedure opened against it by FINMA for its involvement in the «Lava Jato» case in Brazil, which affected dozens of banks located in major financial centres worldwide. FINMA's decision involves the return of CHF 1.3 million corresponding to a part of the income received by the Bank in the management of the relations that proved to be problematic and does not place any restriction on its activities. All costs relating to the proceedings were set aside in 2017.

The Board of Directors would like to thank the clients for the trust they have placed in the Bank, the Executive Board and all its staff for their devoted service and strong cooperative spirit.

For the Board of
Directors the Chairman
Edio Delcò

HIGHLIGHTS

PKB Group — AMOUNTS IN CHF/000	2017	2016
Income statement		
Net revenues	133.594	102.013
Operating expenses	–116.419	–86.124
Gross profit	**17.175**	**15.889**
Group profit	**8.257**	**9.651**
Balance sheet		
Balance sheet total	3.455.692	3.846.457
Gross basic shareholders' equity	413.319	406.458
Client assets		
Total client assets (net of double counting)	12.884.371	13.064.346
Capital indicators		
Tier 1 ratio	23.07%	19.97%
Capital adequacy ratio	23.07%	19.97%
Workforce (FTEs)		
Workforce	502.7	504.9
of whom in Switzerland	*264.2*	*266.6*
of whom abroad	*238.5*	*238.3*

PKB SA — AMOUNTS IN CHF/000	2017	2016
Income statement		
Net revenues	82.262	88.720
Operating expenses	–71.282	–74.180
Gross profit	**10.980**	**14.540**
Net profit for the year	**4.760**	**8.562**
Balance sheet		
Balance sheet total	2.348.796	2.710.290
Gross basic shareholders' equity	413.390	408.630
Capital indicators		
Tier 1 ratio	26.77%	22.78%
Capital adequacy ratio	26.77%	22.78%

Scope of consolidation

PKB Privatbank SA, Lugano	Parent company
PKB Banca Privada (Panama) SA, Panama	Subsidiary (100%)
PKB Alasia SA, Lausanne	Subsidiary (100%)
PKB Servizi Fiduciari SpA, Milano	Subsidiary (100%)
Cassa Lombarda, Milano	Subsidiary 99.57%

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Balance sheet total

At 31.12.2017, assets totalled CHF 3,455.7 million versus liabilities of CHF 3,090.3 million; shareholders' equity, including net profit for the period, was consequently CHF 365.4 million. Compared with the previous year, the balance sheet total decreased by CHF 390.8 million, or 10.2%.

Assets

Liquid assets

This item includes cash deposits, sight deposits and those held in foreign issue banks. They fell by CHF 116.0 million (–14.6%), from CHF 795.2 million to CHF 679.2 million.

Amounts due from banks

The amounts due from banks fell by CHF 175.5 million (-40.4%), from CHF 434.1 million to CHF 258.6 million.

Amounts due from clients

Amounts due from clients increased by 5.8% from CHF 876.3 million to CHF 926.9 million.

Mortgage loans

Mortgages increased by 0.1%, from CHF 991.2 million to CHF 992.7 million.

Trading portfolio assets

The book value of trading assets decreased from CHF 374.6 million to CHF 41.7 million. The decrease is due to the reclassification, with effect from 31.12.2017, of the trading portfolio of Cassa Lombarda SpA under the heading of financial investments. The balance sheet value of the portfolio at the time of the reclassification amounted to CHF 230.6 million.

Positive replacement values of derivative financial instruments

Positive replacement values totalled CHF 16.6 million, compared with CHF 29.2 million in the previous year (–43.2%) and relate to transactions in derivative financial instruments, taken out on the Bank's own account or on behalf of clients, and represent counterparty risk.

Financial investments

At 31.12.2017, financial investments totalled CHF 385.8 million, compared with CHF 187.5 million in the previous year (+105.7%). Investments in securities totalled CHF 12.3 million (CHF 18.1 million at 31.12.2016), while investment in fixed income securities totalled CHF 373.5 million (CHF 169.4 million at 31.12.2016).

Main non-consolidated participations

This item mainly consists of minority shareholdings in Anthilia Capital Partners Spa, Milan (35.75%) and EIH Endurance Investments Holding SA, Lugano (25%), which are accounted for under the equity method.
In the course of financial year 2017, the shareholders of Anthilia Capital Partners Spa, Milan, exercised the call option for 16% of the capital. Upon completion of the transfer of equity certificates, the Group's direct shareholding will be 19.75%.

Tangible fixed assets

These fell from CHF 83.7 million to CHF 81.1 million (– CHF 2.6 million, or 3.1%). They include buildings owned by the Group, furniture, fixtures and fittings, any capitalised renovation work, hardware and software.

Intangible assets

Intangible assets relate to the goodwill paid in the acquisitions of Liechtensteinische Landesbank (Switzerland) SA («LLB»), Lugano, PKB Alasia SA, Lausanne and Cassa Lombarda Spa, Milan.

Other assets

Other assets rose to CHF 51.2 million at 31.12.2017, from CHF 46.2 million at the end of the previous year. This item consists of the clearing account in which the revaluation of hedging instruments is recognised, totalling CHF 8.3 million, deferred tax assets on profit (CHF 5.9 million), indirect tax receivables (CHF 10.5 million) and other receivables (CHF 26.5 million).

Liabilities

Amounts due to banks

Amounts due to banks fell from CHF 238.5 million to CHF 209.0 million.

Amounts due in respect of client deposits

These decreased by CHF 420.0 million, or 13.7% (CHF 2,648.7 million at 31.12.2017, CHF 3,068.7 million at 31.12.2016).
The decrease concerned in particular deposits in USD as a result of the gradual increase in interest rates.

Negative replacement values of derivative financial instruments

Negative replacement values totalled CHF 25.5 million, compared with CHF 32.2 million in the previous year (–20.7%) and relate to transactions in derivative financial instruments, taken out on the Bank's own account or on behalf of clients, and represent a liability in respect of counterparties.

Other liabilities

At 31.12.2017 these totalled CHF 31.5 million (– CHF 10.9 million, or 53.1% compared with the previous year). This item comprises indirect tax liabilities (CHF 1.0 million) and other payables (CHF 30.4 million).

Introduction

The comparison with the previous year shows a substantial increase both in terms of net revenues and operating expenses, mainly due to the fact that the subsidiary Cassa Lombarda SpA, Milan, was included in the scope of consolidation with effect from 31.10.2016; as a result, the 2016 income statement contained only 2 monthly sums referred to the latter.
Previously, Cassa Lombarda SpA was consolidated using the equity method (PKB Privatbank SA held 33.94% of the share capital) and changes in value were accounted for under the heading «Income from equity investments».
To provide a clearer idea of the magnitude, the net revenues of Cassa Lombarda SpA at the time of inclusion amounted to CHF 39.4 million (i.e. 38.6% of the respective item for financial year 2016), while operating expenses totalled CHF 32.8 million (i.e. 38.1% of the respective item for financial year 2016).

Revenues

The gross result from interest operations totalled CHF 32.8 million, an increase on the previous year (+11.3%).
The net result from interest operations, including the positive change in value adjustments on receivables (+CHF 0.3 million) was CHF 33.1 million, an increase on the previous year (+35.1%).
The result from commission business and services amounted to CHF 84.8 million, up 35.4% compared to the previous year.
The result from trading operations totalled CHF 14.8 million, compared with CHF 12.3 million at 31.12.2016 (+20.6%).
For all the items listed above, the increase compared to the previous year is due exclusively to the impact of the first-time consolidation of Cassa Lombarda Spa, Milan. Other ordinary income came in at CHF 0.8 million, compared with CHF 2.6 million in the previous year (-67.2%). The decrease is attributable in particular to the item «Income from equity investments» which, in the previous year, included the adjustment of the value at equity of Cassa Lombarda Spa, Milan.

Operating expenses

Operating expenses increased on the previous year, and came in at CHF 116.4 million (+35.2%). Personnel expenses rose by 36.3% (CHF 22.9 million) while other operating expenses increased by 32.2% (CHF 7.4 million). For both entries, the increase compared to the previous year is due exclusively to the impact of the first-time consolidation of Cassa Lombarda Spa, Milan.

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets

The total cost amounts to CHF 12.1 million and mainly consists of depreciation and amortisation on tangible fixed assets and intangible assets and is up 14.1%(CHF 1.5 million) compared to the previous year.
The amortisation of the goodwill of Liechtensteinische Landesbank (Switzerland) SA («LLB»), Lugano, PKB Alasia SA, Lausanne and Cassa Lombarda Spa, Milan amounted to CHF 4.8 million.
The increase is mainly due to the amortisation of the goodwill of Cassa Lombarda Spa, Milan (CHF 1.5 million annually), begun on 01.11.2016.

Changes in provisions and other value adjustments and losses

This item decreased by CHF 1.1 million in the year (previous year increase of CHF 2.1 million).

Operating result

The operating result was CHF 4.0 million, a decrease of CHF 3.4 million (–45.8%) compared with 2016. The contribution of Cassa Lombarda Spa, Milan to the Group's operating result, net of consolidation operations, was CHF 1.7 million (previous year CHF 0.1 million).

Extraordinary income

Of the total of CHF 3.5 million, CHF 2.6 million was attributable to the portion of goodwill relating to the sale of PKB Privatbank Ltd, St. John's, Antigua, CHF 0.4 million to the revaluation of equity securities, and the remaining CHF 0.5 million to various contingent assets.

Extraordinary costs

The amount of CHF 0.1 million was due mainly to the sale of holdings.

Net profit for the year

Net profit for the year was CHF 8.3 million, a decrease of CHF 1.4 million (–14.4%) compared with the previous year.
The contribution of Cassa Lombarda Spa, Milan to the Group's profit for the year, net of consolidation operations, was CHF 0.7 million (previous year CHF 0.4 million).

CONSOLIDATED BALANCE SHEET

Assets — AMOUNTS IN CHF/000	2017	2016
Liquid assets	679,194,591.30	795,178,016.29
Amounts due from banks	258,610,617.29	434,093,561.34
Amounts due from clients	926,911,581.66	876,283,689.52
Mortgage loans	992,653,693.35	991,227,788.28
Trading portfolio assets	41,724,181.51	374,604,171.04
Positive replacement values of derivative financial instruments	16,562,117.29	29,185,600.15
Financial investments	385,758,276.84	187,525,194.86
Accrued income and prepaid expenses	9,081,191.69	11,750,340.07
Non-consolidated participations	3,807,741.74	3,131,298.41
Tangible fixed assets	81,054,869.01	83,658,047.02
Intangible assets	9,157,027.20	13,657,858.95
Other assets	51,176,425.90	46,161,874.61
Total assets	**3,455,692,314.78**	**3,846,457,440.54**

Liabilities	AMOUNTS IN CHF/000	2017	2016
Amounts due to banks		208,981,578.55	238,472,769.59
Amounts due in respect of costumer deposits		2,648,694,611.22	3,068,716,164.07
Negative replacement values of derivative financial instruments		25,518,022.55	32,168,737.50
Bond issues and central mortgage institution loans		62,800,000.00	
Accrued expenses and deferred income		20,987,901.61	24,510,640.55
Other liabilities		31,456,966.19	20,544,729.08
Provisions		43,504,431.13	47,655,037.63
Reserves for general banking risks		48,350,000.00	48,350,000.00
Bank's capital		20,000,000.00	20,000,000.00
Statutory capital reserve		67,867,600.00	67,867,600.00
of which tax-exempt capital contributions reserve		*67,867,600.00*	*67,867,600.00*
Voluntary retained earnings reserves		268,844,032.36	268,089,714.17
Minority interests in equity capital		430,071.88	431,401.56
Group profit		8,257,099.30	9,650,646.39
of which minority interests in group profit		*9,608.36*	*–1,329.68*
Total Liabilities		**3,455,692,314.78**	**3,846,457,440.54**

CONSOLIDATED OFF-BALANCE SHEET TRANSACTIONS

	AMOUNTS IN CHF/000	2017	2016
Contingent liabilities		40,083,194.25	54,907,487.08
Irrevocable commitments		176,219,374.24	204,509,939.36
Obligation to pay-up shares and make further contributions		4,080,371.31	3,370,711.39

CONSOLIDATED INCOME STATEMENT

AMOUNTS IN CHF/000	2017	2016
Result from interest operations		
Interest and discount income	33,772,044.33	28,257,804.00
Interest and dividend income from trading portfolios	1,136,023.07	379,829.96
Interest and dividend income from financial investments	2,895,107.08	3,916,629.27
Interest expense	–4,966,925.10	–3,042,964.88
Sub-total: gross result from interest operations	**32,836,249.38**	**29,511,298.35**
Changes in value adjustments for default risks and losses from interest operations	301,452.45	–4,974,304.72
Sub-total: net result from interest operations	**33,137,701.83**	**24,536,993.63**
Result from commission business and services		
Commission income from securities trading and investment activity	87,186,493.31	67,329,928.07
Commission income from lending activities	1,531,322.02	1,004,961.56
Commission income from other services	9,402,478.38	7,388,609.36
Commission expense	–13,291,069.54	–13,065,117.60
Sub-total: result from commission business and services	**84,829,224.17**	**62,658,381.39**
Result from trading activities and fair value option	**14,790,387.96**	**12,266,143.88**
Other result from ordinary activities		
Result from the disposal of financial investments	75,713.94	221.376.05
Income from participations	333,765.09	1,555,335.06
Result from real estate	429,158.24	753.886.99
Other ordinary income	398,524.53	20.899.34
Other ordinary expenses	–400,864.00	
Sub-total: other results from ordinary activities	**836,297.80**	**2,551,497.43**
Net revenues	**133,593,611.76**	**102,013,016.33**
Operating expenses		
Personnel expenses	–86,049,804.61	–63,145,974.99
General and administrative expenses	–30,368,834.12	–22,978,506.87
Sub-total: operating expenses	**–116,418,638.73**	**–86,124,481.87**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–12,068,066.69	–10,578,133.89
Changes to provisions and other value adjustments and losses	–1,064,462.62	2,136,492.06
Operating result	**4,042,443.72**	**7,446,892.64**
Extraordinary income	3,525,446.45	4,047,120.78
Extraordinary expenses	–120,162.49	–49,191.03
Changes in reserves for general banking risks		
Taxes	809,371.62	–1,794,176.01
Group profit	**8,257,099.30**	**9,650,646.39**
of which minority interests in group profit	*9,608.36*	*–1,329.68*

CONSOLIDATED CASH FLOW STATEMENT

AMOUNTS IN CHF/000	2017		2016	
	Origin	Use	Origin	Use
Cash flow from operating activities (internal financing)				
Group profit	8.257		9.651	
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	12.068		10.578	
Provisions and other value adjustments	3.960	8.111		2.153
Change in value adjustments for default risks and losses	6.459	2.745	4.858	
Non-monetary income from value adjustments to participations valued at equity	260		929	
Exchange rate fluctutations on fixed assets		2.549		
Accrued income and prepaid expenses	2.669			879
Accrued expenses and deferred income		3.523		4.764
Other items		1.398	1.586	
Previous year's dividend		7.500		15.000
Balance	**7.847**		**4.806**	
Cash flow from shareholders' equity transactions				
Recognised in reserves			167	
Balance			**167**	
Cash flow transactions in respect of participations, tangible fixed assets and intangible assets				
Non-consolidated participations		937	2.371	
Real estate		68	187	
Other tangible fixed assets		2.037		2.879
Intangible assets		309		
Net treasury acquired from Cassa Lombarda SpA			222.576	
Balance		**3.351**	**222.255**	
Cash flow from banking operations				
Medium- and long-term business (>1 year)				
Amounts due to banks	12.733			3.998
Amounts due in respect of customer deposits	421		3.973	
Bond issues and central mortgage institution loans	62.800			
Amounts due from clients		24.475	250.350	
Mortgage loans	20.761			25.040
Financial investments	7.456		19.815	
Short-term business				
Amounts due to banks		42.224		95.819
Amounts due in respect of client deposits		420.443		521.442
Negative replacement values of derivative financial instruments		6.651		6.808
Other liabilities	10.912			19.099
Amounts due from banks	175.483		99.019	
Amounts due from clients		29.866		213.549
Mortgage loans		22.187		19.979
Trading portfolio assets	102.236		18.493	
Positive replacement values of derivative financial instruments	12.624		3.320	
Financial investments	24.955			14.831
Other assets		5.014	1.543	
Balance		**120.479**		**524.052**
Total cash flows	**7.847**	**123.830**	**227.228**	**524.052**
Change in liquid assets	**115.983**		**296.824**	

STATEMENT OF CHANGES TO SHAREHOLDERS' EQUITY

AMOUNTS IN CHF/000	Bank's capital	Capital reserve	Reserves for general banking risks	Currency translation reserves	Voluntary retained earnings reserve and profit/ loss carried forward	Own shares (negative item)	Minority interests	Result for the period	Total
Equity at start of current period	**20.000**	**67.868**	**48.350**	**1.780**	**266.309**	**0**	**431**	**9.651**	**414.389**
Currency rate differences				–1.397					–1.397
Dividends and other allocations								–7.500	–7.500
Other allocations to/ withdrawals from other reserves					2.152		–1	–2.151	0
Profit of the period								8.257	8.257
Equity at the end of current period	**20.000**	**67.868**	**48.350**	**383**	**268.461**	**0**	**430**	**8.257**	**413.749**

1. Operations and workforce

The PKB Group is present in Switzerland in Lugano, Bellinzona, Geneva, Zurich and Lausanne, in Panama through its subsidiary PKB Banca Privada (Panama) SA and in Milan, through Cassa Lombarda SpA. The Group's main activities are private banking and commercial and financial operations. At 31.12.2017, the workforce, expressed as FTEs, was 502.7 (2016: 504.9).
The Bank undertakes all essential activities in-house and does not outsource.

2. Accounting and valuation policies applied to the consolidated annual financial statements

Consolidation policies

The accounting principles used in the preparation of the annual financial statements comply with the Swiss Federal Law on Banks and Savings Banks, and the provisions of the Swiss Financial Markets Supervisory Authority (FINMA) Circular 2015/1 «Accounting Directives – Banks». The consolidated financial statements provide a true and accurate representation of the Group's situation. Consolidation is by the purchase method.

Fully-consolidated participations

The consolidated financial statements include the annual financial statements of PKB Privatbank AG, Lugano; PKB Banca Privada (Panama) SA, Panama; Cassa Lombarda SpA, Milan; PKB Alasia SA, Lausanne; and PKB Servizi Fiduciari SpA, Milan.

Accounting and valuation policies

The accounts are presented by registration date. The criteria listed below were adopted.

Foreign funds and currencies

Valued at year-end rates. Exchange rate differences are recognised in the income statement under «Results from trading activities and fair value option».
The exchange rates used for the main currencies were as follows: EUR 1.17024 (2016: 1.07217) USD 0.97485 (2016: 1.01570).

General receivables and commitments

Valued at nominal value, net of value adjustments.

Trading portfolio assets

Valued at fair value.

Financial investments

Equities: valued at market value at the end of the year, but not above purchase price.
Fixed income securities: the difference between the purchase price and the redemption value is distributed over the years from purchase to maturity.

Not fully consolidated participations

Holding up to 20%:	Valued at purchase price, minus economically necessary amortisation.
Holding Between 20% and 50%	Valuation at NAV:

Regardless of the size of the holding, companies that are not material to the correct valuation of Group equity and/or income, are valued at cost minus economically necessary amortisation.

Tangible fixed assets

These are booked at cost minus ordinary depreciation. Works of art are not depreciated. All other fixed assets are shown on the balance sheet at the lower of cost and market value. Depreciation is applied on a straight-line basis.
Ordinary depreciation periods and rates are as follows:

Fixed assets used by the Bank	maximum 50 years
Renovations	maximum 20 years
Plant	maximum 10 years
Furniture	maximum 10 years
Equipment and vehicles	maximum 5 years
Hardware/Software	maximum 3 years
Intangible assets	maximum 5 years

Other Group entities overall use the same depreciation rates.

Reserves for general banking risks
Reserves for general banking risks are not taxed.

Intangible assets
The intangible assets recorded on the balance sheet relate to the goodwill paid for the Liechtensteinische Landesbank (Switzerland) SA («LLB»), Lugano, asset deal, and the acquisition of Cassa Lombarda SpA and PKB Alasia SA.

Solvency risks
Where necessary, specific value adjustments are booked and then deducted from their respective item under assets.

Doubtful interest
Interest and commission over 90 days overdue are not recognised in revenues, but provisions are made for them. The loans in question are considered non-performing.

Result from trading activities and the fair value option
This is recognised in the income statement before deduction of refinancing costs.

Contingent liabilities, irrevocable commitments, payment and credit commitments
Off-balance sheet transactions are recorded at nominal value. Any provisions for recognised risks are reported under the item «Provisions».

Derivative financial instruments
These are valued at market value, mark-to-market. The Bank's use of derivative financial instruments on its own behalf mainly concerns hedging transactions and marginally trading within the limits established by internal regulation.

Criteria applied for identifying risks of loss and calculating value adjustments
Credit files are analysed regularly and at least once a year.
Where necessary depending on the risk, analysis is conducted more frequently and in particolare per i crediti non performanti.
promptly, particularly for non-performing loans.
Value adjustments required for any portion of the loan not covered by guarantees are recorded immediately.
For Cassa Lombarda, provisions for doubtful loans are recorded according to international accounting standards

Collateral assets for loans
Liquidation value is calculated on the basis of market price or realised value, from which the costs of liquidation and refinancing are deducted.

Deferred tax
This is calculated on the reserves for general banking risk and on the valuation differences for asset and liability entries in the individual financial statements as compared with the consolidated financial statements.

Risk assessment and management
Risk assessment and management form an integral part of the internal control system, as required by FINMA circular 17/1. The Board of Directors is responsible for the Group's internal control system, for which it sets the guidelines and periodically checks that they are sufficient and operating correctly.
The Board of Directors is supported in its duties by an Audit Committee, which advises and makes proposals. The Executive Board is responsible for the operational management of consolidated supervision, and in turn is supported by the Risk Committee (RICO) and the Compliance Committee (COCO), responsible for defining the procedures for measuring, managing and controlling risk for the PKB Group. RICO and COCO meet at least every quarter, and have an integrated Group risk reporting system. Internal Audit checks and assesses the internal control system, and thereby helps to constantly refine it.
In compliance with current legal requirements, the Group has produced its own regulations for the consolidated supervision of the Group and a risk policy. These set out integrated guidelines for risk assessment and management with which all Group companies must comply. The risk assessment and management policy, which is examined every year by the Board of Directors, forms the basis of the PKB Group's risk management process. It is linked to a set of ceilings that cover each identified risk category and are checked constantly, particularly with regards to the risks set out below.

Credit risk
Credit risk is regulated by the Board of Directors through the Credit Policy and the PKB Group Credit Regulation. The Executive Board manages credit risk through the Credit Committee (COCR), which supervises the application of company strategies, and analyses, in terms of quality and quantity, the solvency of counterparties and their respective guarantees.
Credit risk is controlled by limiting risk and exposure at PKB Group level, by limiting concentration of risk in counterparty groups (large risks and 10 major debtors) and by country. Del credere and country risk are subject to special provisions.
Supervisory capital requirements for credit risk are calculated using the international method, with a comprehensive approach to the treatment of guarantees.

Market risk (balance sheet)
The market risk on balance sheet assets is managed through the Asset & Liability Management Policy of the PKB Group approved by the Board of Directors. The Executive Board supervises market risk through the Asset & Liability Committee (ALCO).
Interest rate risk is controlled using income and value effect indicators, which are calculated using stress scenarios, while credit, counterparty and exchange rate risk are controlled using a system of exposure limits. The interest rate risk for fixed-rate loans to customers is hedged mainly with interest rate swaps. The effectiveness of the hedge is verified using the ratio between the nominal value of the derivative and the credit (or aggregates of loans) which must be less than or equal to 100%, and have the same currency and six-month maturity band. In line with FINMA Circular 2015/1 «Accounting Directives», for these hedging instruments the Bank applies hedge accounting.
Interest rate risk is calculated using the modified duration method, as required by the supervisory authorities. Exchange rate risk is hedged mainly by forward rate agreements and currency options.

Market risk (trading portfolio)
Trading portfolio management is governed by the PKB Group Trading Policy approved by the Board of Directors and by directives approved by the Executive Board. PKB Switzerland is a market maker on the primary CHF bond market, and also operates on the forex, bond and equity markets.
The trading portfolio market risk is controlled using a system of exposure limits, the results of which are reported to the Executive Board.
Supervisory capital requirements for market risk are calculated using the standard method, with a delta-plus approach for options.

Liquidity risk
Liquidity risk is regulated by the Board of Directors through the Asset & Liability Management Policy and the Liquidity Regulation, both valid at PKB Group level. The Executive Board supervises and manages liquidity risk through ALCO.
Liquidity risk is supervised in accordance with legal requirements and the results of checks are reported in ALCO.

Operating risk
Operating risk, which includes legal and compliance risks, is managed by the Board of Directors through the PKB Group's Operational Policy and the Group Legal & Compliance Policy, as well as implementing regulations, while the Executive Board also issues directives on operating risk management.
Operating risk management is organised as follows:

- processes: the Group governs its own operations, in particular those that are likely to have an impact on the outside world, in accordance with the legal requirements and ethical standards applying to banking. It ensures that operations and contracts involving clients are comprehensible and transparent, particularly financial derivative contracts in respect of which the Bank has signed agreements with ISDA and CSA. Functions are separated to mitigate operating risk;
- human resources: the Group's aim is to recruit qualified personnel capable of implementing its strategy and identifying with its culture. The latter is reflected by management and staff as well as by the Group's approach to risk management. Compliance risk and its impact on the Bank's reputation is mitigated through ongoing training and awareness-raising of staff at all levels, a clear definition of work processes and responsibilities and the dissemination of a corporate culture founded on the pillars of irreproachable activity and the highest standards of professional ethics. The Group also adopted a PKB Charter of Values that was presented and discussed at all levels throughout the Bank. The Group has a Legal & Compliance department that handles operational risk relating to legal, conduct, anti-money laundering and compliance matters;
- internal systems: the Group has the internal and external expertise necessary to ensure the management of its IT system;
- external events: the Group has implemented security measures specifically designed to prevent unauthorised persons from accessing areas where sensitive documents are stored. The Executive Board has introduced a general continuity plan in order to ensure the continuity of its activities, with a detailed analysis looking at the various scenarios considered, and has identified the minimum resources necessary to implement the continuity plan. Operating risk is also monitored by a system for identifying loss, a risk self-assessment process and a series of Key Risk Indicators, the results of which are reported in RICO.
  Capital adequacy requirements for operating risk are calculated using the basic method.

Legal risk

To prevent risks, the PKB Group ensures that its operations, particularly those likely to have an impact on the outside world, are in line with the legal requirements and ethical standards applying to the banking sector, and that operations and contracts involving clients are comprehensible and transparent.

Reputational and compliance risk

Unlike compliance risks, which concern only the breach of laws and regulations, damage to reputation can be caused by such a break or even by behaviour that the public considers inappropriate or unacceptable, even though it is fully compliant with the law and regulations. In order to take into account the wide range of reputational risks, the PKB Group has produced a Charter of Values, designed to support a corporate culture based on impeccable conduct and leading professional standards.

Compliance risks are managed through a whole series of policies and procedures that cover all the Group's areas of business. Given the international nature of our business, internal rules go beyond the Swiss legal and regulatory framework, and address all cross-border activities and issues relevant to the way we serve our clients, in particular in the areas of investment advisory services and trading on foreign financial markets.

Strict compliance with the law, standards and internal regulations is assured through a three-level control programme. The main responsibility for compliance with all these rules lies with the line manager. The first level of control is mainly based on process and workflow checks to ensure compliance with the Group's four-eyes principle, and on an escalation system. Ongoing training for staff at all levels is an integral part of our efforts to mitigate reputational and compliance risks. The second level of control includes independent checks by operating department Legal & Compliance, which reports to the Executive Board. Risks are assessed once a year and a specific action plan is produced to ensure compliance risks are addressed promptly and correctly. The third level of control includes audits performed by Internal Audit, which is not an operating department and reports to the Board of Directors. Internal Audit also carries out independent controls.

Group policy on the use of derivative financial instruments

Positions taken in derivatives are, in general, held on behalf of clients.
The PKB Group makes use of interest rate risk hedging transactions for the structural management of the balance sheet, through interest rate swaps and forward rate agreements.

Significant events following the end of the financial year

Following the end of the financial year, there were no events that would have a significant impact on the Group's equity or income position.

3. Details on individual positions in the notes to the financial statements

3.1 Breakdown of securities financing transactions (assets and liabilities)

No positions at 31.12.2017

3.2 Presentation of loan collateral and off-balance sheet transactions, as well as impaired loans/receivable

AMOUNTS IN CHF/000	TYPE OF COLLATERAL			TOTAL
	Secured by mortgage	Other collateral	Unsecured	
Loans (before netting with value adjustments)				
Amounts due from customers	228.893	657.825	93.137	979.854
Mortgage loans	935.048	44.876	15.261	995.185
– Residential property	625.356	73		625.429
– Office and business premises	201.699			201.699
– Commercial and industrial premises	15.185			15.185
– Other	92.809	44.804	15.261	152.874
Total loans (prior netting with value adjustments)				
Current financial year	1.163.941	702.701	108.398	1.975.040
Previous financial year	*1.142.366*	*623.431*	*158.552*	*1.924.349*
Loans (after netting with value adjustments)				
Current financial year	1.159.311	676.533	83.721	1.919.565
Previous financial year	*1.139.391*	*580.280*	*147.840*	*1.867.511*
Off-balance sheet				
Contingent liabilities	3.417	33.434	3.232	40.083
Irrevocable commitments	17.840	48.905	109.475	176.219
Obligation to pay-up shares and make further contribution			4.080	4.080
Off-balance sheet total				
Current financial year	21.256	82.339	116.788	220.383
Previous financial year	*31.315*	*104.709*	*126.764*	*262.788*

Impaired loans

	Gross debt	Estimated realizable value of collateral	Net debt	Individual value adjustments
Current financial year	111.362	53.456	57.906	53.002
Previous financial year	*101.281*	*40.763*	*60.518*	*54.769*

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

AMOUNTS IN CHF/000	2017	2016
Assets		
Trading portfolio assets		
Debt securities, money market securities/transactions	41.040	373.392
of which listed	19.221	15.374
Equity securities	684	1.212
Precious metals and commodities		
Total assets	**41.724**	**374.604**
of which securities eligible to repo agreements in compliance with liquidity requirements		

3.4 Presentation of derivative financial instruments (assets and liabilities)

AMOUNTS IN CHF/000	INSTRUMENTS HELD FOR TRADING			HEDGING INSTRUMENTS		
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Swaps	5.305	4.706	149.851	1.601	5.866	259.347
Options (OTC)	7.075	7.075	263.806	3	5.134	55.816
Foreign exchange / Precious metals						
Forward contracts	285	215	26.167			
Combined interest rate/currency swaps	601	626	92.881	1.649	1.855	545.252
Options (OTC)	39	39	22.265			
Equity securities/indices						
Options (OTC)	3	3	889			
Total before netting agreement						
Current financial year	13.308	12.664	555.859	3.253	12.854	860.415
Previous financial year	*16.247*	*14.829*	*574.780*	*12.939*	*17.340*	*1.226.010*
Total after netting	Positive replacement values (cumulative)			Negative replacement values (cumulative)		
Current financial year			16.562			25.518
Previous financial year			*29.186*			*32.169*

Breakdown by counterparty	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)		3.831	12.731

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3.5 Breakdown of financial investments

AMOUNTS IN CHF/000

	Book value		Fair value	
	2017	2016	2017	2016
Debt securities	373.454	169.409	375.396	172.301
of which intended to be held to maturity	142.080	168.349	143.450	171.234
Equity securities	12.304	18.116	14.635	19.553
Total	**385.758**	**187.525**	**390.031**	**191.854**
of which securities eligible for pensions under liquidity rules	*33.531*	*24.490*	*33.801*	25.014

Breakdown of counterparties by rating	From AAA up to AA–	From A+ up to A–	From BBB+ up to BBB–	From BB+ up to B–	Less than B–	No rating
Debt securities: Book values	86.401	38.227	211.416	10.501	4.849	22.429

3.6 Presentation of participations

AMOUNTS IN CHF/000

	Acquisition cost	Accumulated value adjustments and/or changes in book value (valuation using the equity method)	Book value at 31.12.2016	Disposals	Value adjustments	Changes in book value in the case of participations valued using the equity method	Book value at 31.12.2017	Market value
Participations valued using the equity method								
Not listed	3.095	–364	2.731	55		260	3.046	n/a
Other participations								
Not listed	400		400	1	361		762	n/a
Total participations	**3.495**	**–364**	**3.131**	**56**	**361**	**260**	**3.808**	

3.7 Disclosure of companies in which the bank holds a permanent direct or indirect significant participation

AMOUNTS IN CHF/000

	Business activity	Currency	Bank's capital	Share of capital	Share of votes	Held directly	Held indirectly
Fully consolidated participations (I)							
PKB Banca Privada (Panama) SA, Panamá	Bank	USD	10.000	100.00%	100.00%	10.000	
Cassa Lombarda S.p.A.	Bank	EUR	18.000	99.57%	99.57%	17'922	
PKB Alasia SA, Lausanne	Asset management	CHF	500	100.00%	100.00%	500	
PKB Servizi Fiduciari SpA, Milan	Fiduciary	EUR	240	100.00%	100.00%	240	
Participations valued at equity							
Anthilia Capital Partners S.p.A.	Holding company	EUR	5.371	35.75%	35.75%	1.697	
EIH Endurance Investments Holding SA	Holding company	CHF	100	25.00%	25.00%	25	
Main unconsolidated participations							
Six Group AG, Zurich	Market infrastructure	CHF	19.522	0.015%	0.015%	3	
Aduno Holding SA, Zurich	Holding company	CHF	25.000	0.28%	0.28%	70	
Pfandbriefbank, Zurich	Bank	CHF	900.000	0.0011%	0.0011%	10	

(1) In the course of financial year 2017, the shareholders of Anthilia Capital Partners Spa, Milan, exercised the call option for 16% of the capital. The relative financial impact to the heading «Extraordinary costs» amounted to CHF –93 thousand.
Upon completion of the transfer of equity certificates, the Group's direct shareholding will be 19.75%

3.8 Presentation of tangible fixed assets

AMOUNTS IN CHF/000

	Acquisition cost	Accumulated depreciation	Book value at 31.12.2016	2017						
				Changes to the scope of consolidation	Transfers	Investments	Disposals	Depreciation	Appreciation	Book value at 31.12.2017
Bank premises	100.657	–44.927	55.730			69	2.188	–3.142		54.845
Other properties	9.954	–3.492	6.462							6.462
Proprietary or separately acquired software	4.613	–2.703	1.910			458		–1.690		678
Other tangible fixed assets	69.444	–49.888	19.556			1.580	361	–2.427		19.070
Total tangible fixed assets	**184.668**	**–101.010**	**83.658**			**2.107**	**2.549**	**–7.259**		**81.055**

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3.9 Presentation of intangible assets

AMOUNTS IN CHF/000	2017									
	Acquisition cost	Accumulated amortisation	Book value at 31.12.2016	Changes to the scope of consolidation	Transfers	Investments	Disposals	Amortisation	Appreciation	Book value at 31.12.2017
Goodwill	91.629	–77.971	13.658			309		–4.810		9.157
Total intangible assets	**91.629**	**–77.971**	**13.658**			**309**		**–4.810**		**9.157**

3.10 Breakdown of other assets and other liabilities

AMOUNTS IN CHF/000	2017		2016	
	Other assets	Other liabilities	Other assets	Other liabilities
Compensation account	8.266		10.168	377
Deferred income taxes recognised as assets	5.894		5.949	
Amount recognised as assets in respect of employer contribution reserves				
Indirect taxes	10.489	1.023	10.524	1.294
Other receivables and liabilities	26.527	30.434	19.521	18.874
Total	**51.176**	**31.457**	**46.162**	**20.545**

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

AMOUNTS IN CHF/000	Book values	Effective commitments
Assets pledged / assigned		
Bonds given as collateral to banks	211.518	211.518
Mortgages used to guarantee loans from central mortgage bond institutions	85.440	62.800

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

AMOUNTS IN CHF/000	2017	2016
Total	18.345	20.879

The Bank's employees are registered with an autonomous and independent pension fund in accordance with the law on occupational pensions in Switzerland (LPP). Regulations require the use of defined contributions schemes. Pension liabilities are calculated each year by an actuary. The Bank accounts for its contributions to the employees' occupational pension scheme as expenses for the financial year concerned.

3.13 Disclosure on the economic situation of own pension schemes

Employer contribution reserves (ECR) — AMOUNTS IN CHF/000	Nominal value at 31.12.2017	Waiver at 31.12.2016	Net amount at 31.12.2017	Net amount at 31.12.2016	Impact of ECR on personnel expenses	
					2017	2016
LPP pension fund for employees of PKB Privatbank AG	1.300		1.300	1.300		
Total	**1.300**		**1.300**	**1.300**		

Presentation of the economic benefit/ obligation and the pension expenses — AMOUNTS IN CHF/000	Over-funding/ under-funding at 31.12.2017	Economic share of the bank and/or the financial group		Change in economic share in reporting year	Contributions paid for the reporting period	Pension charges within personnel expenses	
		2017	2016			2017	2016
With overfunding	15.859				6'494	5.013	5.101
Total	**15.859**				**6'494**	**5.013**	**5.101**

For each pension plan, the Bank must determine whether reserve levels and the particular circumstances of the pension fund give rise to a surplus or a shortfall. The assessment is based on the financial position at 31 December 2016 and the change in the financial position over 2017.
Based on the estimates received from the pension fund, the reserve levels in accordance with art. 44 OPP2 (Ordinanza sulla previdenza professionale – Occupational Pension Order) were 110.3% (2016: 106.7%)

Employees of foreign companies:
Employees of foreign companies that are part of the Group have pension cover in their respective countries, in accordance with local laws.

3.14 Presentation of issued structured products

The Bank did not issue any structured products over the year.

3.15 Presentation of bonds outstanding issues and mandatory convertible bonds

There were no outstanding bond issues at 31.12.2017

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

AMOUNTS IN CHF/000

	Balance at 31.12.2016	Use in conformity with designated purpose	Transfers	Currency rate differences	Past due interest, recoveries	New provisions charged to the income statement	Releases to the income statement	Balance at 31.12.2017
Provisions for deferred taxes	16.746	–79		8		6	–2.807	13.874
Provisions for pension benefit obligations	3.471	–284		316		53	–77	3.479
Other provisions	27.438	–3.238		120		3.457	–1.626	26.151
Total provisions	**47.655**	**–3.601**		**444**		**3.516**	**–4.510**	**43.504**
Reserves for general banking risks	**48.350**							**48'350**
Value adjustment for default and country risks	**57.438**	**–5.678**		**3.615**	**111**	**2.733**	**–2.745**	**55.474**
of which, value adjustments for default risks in respect of impaired loans/ receivables	54.769	–5.678		3.461	111	2.733	–2.394	53.002
of which value adjustments for latent risks	2'669			154			–351	2.472

The item «Other provisions» includes CHF 11.3 million allocated to the retention plan, CHF 6.6 million for legal risks, CHF 2.6 million for tax risks and CHF 1.3 million to hedge country risk.
Contingent liabilities whose outcome can be estimated were allocated on the basis of the best available estimate.

3.17 Presentation of bank's capital

AMOUNTS IN CHF/000

	2017			2016		
	Total nominal value	Number of ordinary shares	Capital eligible for dividend	Total nominal value	Number of ordinary shares	Capital eligible for dividend
Share capital (full paid)	20.000	20.000	20.000	20.000	20.000	20.000
Total share capital	**20.000**	**20.000**	**20.000**	**20.000**	**20.000**	**20.000**

At 31.12.2017, there were no voluntary restrictions on the distributable nature of reserves.

3.18 Number and value of equity securities or options on equity securities held by all executies and directors and by employees and disclosures on any employee participation schemes

The Bank had no employee participation schemes at 31.12.2017.

3.19 Disclosure of amounts due from/to related parties

AMOUNTS IN CHF/000

	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	2017	2016	2017	2016
Holders of qualified participations			17.452	4.280
Group companies	56	95	3.332	1.717
Affiliates			19.188	1.502
Transactions with members of governing bodies	2.946	7.712	12.815	20.673

Loans to members of governing bodies are granted under the same conditions applied to Bank employees.
Transactions with affiliates are conducted under arm's length conditions, and relate to securities transactions, payment traffic and treasury transactions.

3.20 Disclosure of holders of significant participations

AMOUNTS IN CHF/000

	2017		2016	
	Nominal	%	Nominal	%
with voting rights: Auriga SA, Luxembourg	20.000	100,00	20.000	100,00

«There is no conditional capital, and there are no significant shareholders without voting rights.
Luxembourg company Auriga S.A. holds 100% of the Bank's share capital. The voting rights of the latter are controlled indirectly, for 51.844%, by the family of the late Serafino Trabaldo Togna. Further significant shareholdings are held by the heirs of the late Achille Trabaldo Togna and Piero Trabaldo Togna.»

3.21 Disclosure of own shares and composition of equity capital

At 31.12.2017 neither the Group nor its subsidiaries held any treasury shares.

3.22 Disclosures in accordance with the ordinance against excessive compensation with respect to listed stock corporations and article 663c paragraph 3 CO for banks whose equity securities are listed

Not applicable

3.23 Presentation of maturity structure of financial instruments

AMOUNTS IN CHF/000

	MATURITY							
	At Sight	Cancellable	Within 3 months	3-12 months	1-5 years	over 5 years	No maturity	Balance at 31.12.2017
Current assets/ Financial instruments								
Liquid assets	679,195							679,195
Amounts due from banks	190,699	4,121	52,003	11,788				258,611
Amounts due from clients	274,854	211,871	138,292	99,896	163,266	38,732		926,912
Mortgage loans		497,562	13,437	56,314	143,120	282,220		992,654
Trading portfolio assets	41,724							41,724
Positive replacement values of derivative financial instruments	16,562							16,562
Financial investments	12,114		3,426	5,339	200,549	164,329		385,758
Total at 31.12.2017	**1,215,148**	**713,554**	**207,159**	**173,337**	**506,935**	**485,282**		**3,301,415**
Total at 31.12.2016	*1,446,260*	*952,046*	*353,278*	*171,202*	*406,622*	*358,691*		*3,688,099*
Debt capital/ financial instruments								
Amounts due to banks	53,263		3,587		152,131			208,982
Amounts due in respect of client deposits	2,634,698	1,643			12,354			2,648,695
Negative replacement values of derivative financial instruments	25,518							25,518
Mortgages from issuers of mortgage bonds and loans					10,000	52,800		62,800
Total at 31.12.2017	**2,713,479**	**1,643**	**3,587**		**174,485**	52,800		**2,945,994**
Total at 31.12.2016	*3,182,358*	*2,659*	*1,379*	1,631	*151,331*			*3,339,358*

PKB

3.24 Presentation of assets and liabilities, by domestic and foreign origin in accordance with the domicile principle

AMOUNTS IN CHF/000

	2017		2016	
	Switzerland	Abroad	Switzerland	Abroad
Assets				
Liquid assets	448.772	230.422	602.692	192.486
Amounts due from banks	67.294	191.317	130.209	303.885
Amounts due from clients	182.925	743.987	186.657	689.626
Mortgage loans	801.351	191.303	807.690	183.538
Trading portfolio assets	394	41.330	456	374.148
Positive replacement values of derivative financial instruments	16.530	32	29.098	88
Financial investments	69.345	316.413	87.351	100.174
Accrued expenses and deferred income	8.144	938	11.233	517
Non-consolidated participations	754	3.054	393	2.738
Tangible fixed assets	52.219	28.836	55.780	27.878
Intangible assets	9.157		13.658	
Other assets	12.740	38.437	10.425	35.737
Total assets	**1.669.624**	**1.786.069**	**1.935.642**	**1.910.815**
Liabilities				
Amounts due to banks	22.867	186.115	65.792	172.681
Amounts due in respect of client deposits	623.667	2.025.027	641.414	2.427.302
Negative replacement values of derivative financial instruments	25.441	77	32.064	105
Mortgages from issuers of mortgage bonds and loans	62.800			
Accrued expenses and deferred income	20.777	211	24.265	246
Other liabilities	2.383	29.074	7.813	12.732
Provisions	39.158	4.346	43.060	4.595
Reserves for general banking risks	48.350		48.350	
Bank’s capital	20.000		20.000	
Statutory capital reserve	67.868		67.867	
Earnings reserve	268.844		268.089	
Minority interests in equity capital	430		431	
Group profit	8.257		9.651	
Total liabilities	**1.210.842**	**2.244.850**	**1.228.796**	**2.617.661**

3.25 Breakdown of total assets by country or group of countries	AMOUNTS IN CHF/000	2017		2016	
			%		%
Assets					
Italy		1.216.943	35.22	1.166.912	30.34
Other OECD countries		419.734	12.15	608.527	15.82
Other countries in the Americas (non-OECD countries)		23.555	0.68	111.759	2.91
Other countries		125.837	3.64	23.617	0.61
Total receivables abroad		**1.786.069**	**51.68**	**1.910.815**	**49.68**
Switzerland		1.669.624	48.32	1.935.642	50.32
Total assets		**3.455.692**	**100.00**	**3.846.457**	**100.00**

3.26 Breakdown of total assets by credit rating of country groups (risk domicile)		Net foreign exposure at 31.12.2017		Net foreign exposure at 31.12.2016	
Bank's country rating	Moody's	in CHF/000	%	in CHF/000	%
1-2	Aaa – Aa3	1,734,817	95.5%	1,757,660	97.3%
3	A1 – A3	4,599	0.25%	4,541	0.3%
4	Baa1 – Baa3	59,039	3.25%	25,239	1.4%
5	Ba1 – Ba3	1,931	0.11%	2,088	0.1%
6	B1 – B3	14,568	0.8%	9,783	0.5%
7	Caa1 – C	286	0.02%	398	0.0%
0	No rating	1,360	0.07%	6,630	0.4%
Total assets		**1,816,600**	**100%**	**1,806,339**	100%

The Bank measures country risk using Swiss Export Risk Insurance (SERV) ratings. These are compared with Moody's ratings in the table above otal assets

3.27 Presentation of assets and liabilities broken down by the most significant currencies for the Bank

	CURRENCIES (equivalent in CHF/000)				
	CHF	EUR	USD	Other	Total
Assets					
Liquid assets	447.151	231.629	210	205	679.195
Amounts due from banks	4.803	130.913	73.531	49.363	258.611
Amounts due from clients	134.753	667.760	88.572	35.826	926.912
Mortgage loans	801.351	191.303			992.654
Trading portfolio assets	904	17.453	23.343	25	41.724
Positive replacement values of derivative financial instruments	16.447		115		16.562
Financial investments	86.374	267.040	32.344		385.758
Accrued expenses and deferred income	6.770	1.124	1.021	166	9.081
Non-consolidated participations	754	2.682	372		3.808
Tangible fixed assets	50.651	26.505	3.899		81.055
Intangible assets	9.157				9.157
Other assets	12.698	38.235		244	51.176
Total assets	**1.571.812**	**1.574.644**	**223.408**	**85.829**	**3.455.692**
Delivery entitlements from spot exchange, forward forex and forex option transactions	15.654	390.639	287.415	13.328	707.037
Total assets at 31.12.2017	**1.587.466**	**1.965.282**	**510.823**	**99.158**	**4.162.729**
Liabilities					
Amounts due to banks	2.364	168.626	21.113	16.878	208.982
Amounts due in respect of client deposits	434.078	1.724.136	430.718	59.763	2.648.695
Negative replacement values of derivative financial instruments	25.408		110		25.518
Mortgages from issuers of mortgage bonds and loans	62.800				62.800
Accrued expenses and deferred income	19.501	785	682	20	20.988
Other liabilities	629	29.090	1.736	3	31.457
Provisions	37.895	4.346	88	1.175	43.504
Reserves for general banking risks	48.350				48.350
Bank's capital	20.000				20.000
Statutory capital reserve	67.868				67.868
Earnings reserve	268.844				268.844
Minority interests in equity capital	430				430
Group profit	8.257				8.257
Total liabilities	**996.423**	**1.926.984**	**454.447**	**77.838**	**3.455.692**
Delivery commitments from spot exchange, forward forex and forex option transactions	566.414	52.304	55.495	19.660	693.872
Total liabilities at 31.12.2017	**1.562.837**	**1.979.288**	**509.942**	**97.498**	**4.149.565**
Net position per currency	**24.630**	**–14.006**	**881**	**1.660**	

3.28 Breakdown and explanation of contingent liabilities and liabilities — AMOUNTS IN CHF/000	2017	2016
Guarantees to secure credits and similar	30.377	37.977
Irrevocable commitments resulting from documentary letters of credit	902	2.396
Other contingent liabilities	8.804	14.534
Total contingent liabilities	**40.083**	**54.907**

3.29 Breakdown of credit commitments

There were no credit commitments at 31.12.2017

3.30 Breakdown of fiduciary transactions — AMOUNTS IN CHF/000	2017	2016
Fiduciary investments with other banks	91.228	15.733
Total fiduciary transactions	**91.228**	**15.733**

3.31 Breakdown of managed assets and presentation of their development

a) Breakdown managed assets — AMOUNTS IN CHF/000	2017	2016
Type of asset		
Assets held in self-managed collective investment schemes	922.590	843.177
Asset under discretionary asset management agreements	4.811.889	4.433.530
Other managed assets	6.993.762	7.595.909
Sub-total: managed assets (incl. double counting)	**12.728.241**	**12.872.616**
of which double counting	*729.208*	*635.614*
Commercial clients – Custody only	885.338	827.344
Sub-total: other client assets	**885.338**	**827.344**
Total client assets (incl. double counting)	**13.613.579**	**13.699.960**

b) Presentation of the development of managed assets — AMOUNTS IN CHF/000	2017	2016
Total managed assets (incl. double counting) at start of period	**12.872.616**	**9.483.688**
+/– Net new money inflow or net new money outflow	–416.986	–1.304.498
+/– Change in market prices, interest, dividends and exchange rates	272.611	187.614
+/– Other effects*		4.505.812
Total managed assets (incl. double counting) at end of period	**12.728.241**	**12.872.616**

* At 31.12.2016, the item «Other effects» corresponds to the inflow of managed assets following the complete acquisition of Cassa Lombarda.
Other managed assets includes all client assets (private, commercial and institutional) held for investment on which the Bank receives commission and/or fees in addition to custody fees and other account-keeping expenses.
All other assets held in custody by the Bank that do not meet the above criteria are considered «custody only».
Assets under management are client assets managed in accordance with the profile chosen by the client. Receivables due from clients are not deducted from total managed assets.
Net contributions/withdrawals include actual inflows and outflows of client funds and assets but do not include the performance of securities or currencies, interest, charges, commission or dividends.

PKB

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

a) Breakdown by business area (based on the organisation of the bank and/or the financial group) AMOUNTS IN CHF/000	2017	2016
Trading with mixed transactions	14.909	12.247
Group companies subject to FINMA money laundering supervision	61	19
Total result from trading activities	**14.970**	**12.266**

b) Breakdown by underlying risk and application of the fair value option AMOUNTS IN CHF/000	2017	2016
Result from trading activities from:		
– Interest rate instruments	9.134	3.866
– Equity securities (incl. funds)	70	–144
– Currencies	5.487	8.272
– Commodities/precious metals	99	272
Total result from trading activities	**14.790**	**12.266**

3.33 Disclosure of material refinancing income in the item «interest and discount income» as well as material negative interest

The Group does not conduct significant refinancing operations. «Income from interest and discounts» includes negative interest of CHF 2.2 million.

3.34 Breakdown of personnel expenses AMOUNTS IN CHF/000	2017	2016
Remuneration (attendance fees, fixed compensation to members of the Bank's governing bodies, salaries and allowances)	63.963	49.382
Benefits	14.843	10.408
Other personnel expenses	7.245	3.356
Total personnel expenses	**86.050**	**63.146**

3.35 Breakdown of general and administrative expenses AMOUNTS INCHF/000	2017	2016
Building occupancy expenses	3.855	2.114
IT and telecommunications technology expenses	5.162	2.407
Expenses for vehicles, equipment, furniture and other fixtures, and operating leases	807	160
Audit fees (art. 961a no. 2 CO)	925	633
– of which for accounting and supervisory audits	*886*	*633*
Sundry operating expenses	19.619	17.665
Total other operating expenses	**30.369**	**22.979**

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

Of the total of CHF 3.5 million, the extraordinary income is attributable to the share of goodwill arising from the sale of PKB Privatbank Ltd, St. John's, Antigua for CHF 2.6 million, CHF 0.4 million are referred to the revaluation of equity securities and the remaining CHF 0.5 million to various contingent assets (of which CHF 0.3 million related to equity securities). The extraordinary expenses are due, for CHF 0.1 million, to the sale of participation shares.

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

In the course of the year we revalued the SIX Group AG shareholding at purchase cost. The revaluation generated an extraordinary income of CHF 0.4 million.

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

AMOUNTS IN CHF/000	2017		2016	
	Switzerland	Abroad	Switzerland	Abroad
Net result from interest operations	22.106	11.032	22.554	1.983
Result from commission business and services	50.524	34.305	54.457	8.201
Result from trading activities	9.173	5.618	11.295	971
Other result from ordinary activities	840	–4	2.731	–179
Income for the period	**82.642**	**50.951**	**91.037**	**10.976**
Personnel expenses	–55.928	–30.122	–57.460	–5.686
Material expenses	–16.087	–14.281	–18.942	–4.036
Operating expenses	**–72.015**	**–44.403**	**–76.402**	**–9.722**
Operating profit	**10.627**	**6.548**	**14.635**	**1.254**

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

AMOUNTS IN CHF/000	2017		2016	
	Tax rate		Tax rate	
Current tax expense *	11.6%	1.992	14.0%	2.229
Deferred tax expense	19.8%	–2.801	19.8%	–435
Total tax		**–809**		**1.794**

* Average rate applied to operating profit.
The 2017 current tax cost comprises income of CHF 0.8 million deriving from the release of the 2013 provision for taxes no longer deemed necessary in the course of the financial year.

3.40 Disclosure and explanations on the earnings per equity security in the case of listed banks

The Bank's shares are not listed.

4. Shareholders' equity and liquidity data published in accordance with FINMA Circular 2008/22

4.1 Eligible shareholders' equity AMOUNTS IN CHF/000	2017	2016
Gross basic shareholders' equity	**413,319**	**406,458**
of which minorities	430	431
of which paid-in share capital	20,000	20,000
of which reserves from capital and reserves generated from earnings	344,156	337,677
of which reserves for general banking risks	48,350	48,350
of which foreign currency reserves	383	
– regulatory deductions	–12,965	–16,789
of which intangible assets	–9,157	–13,658
– other elements reducing basic shareholders' equity		
Basic eligible shareholders' equity	**400,354**	**389,669**
+ complementary and supplementary shareholders' equity		
– other deductions to be made to shareholders' equity		
Eligible shareholders' equity	**400,354**	**389,669**

4.2 Required shareholders' equity AMOUNTS IN CHF/000	2017		2016	
Credit risk (AS-BRI approach)		110.537		111.572
of which valuation risk on equity securities in the Bank's portfolio	1.961		3.770	
Risks without counterparty		6.484		6.693
Market risks (standard approach)		1.812		12.066
of which on interest rate instruments	1.405		10.753	
of which on equity securities	109		175	
of which on currencies and precious metals	126		810	
of which on commodities	172		328	
Operating risks (basic indicator approach)		20.009		25.783
Required shareholders' equity		**138.842**		**156.113**
Ratio of eligible shareholders' equity under Swiss law capital requirement		**288%**		**250%**

4.3 Capital ratio (% of risk-weighted positions)	2017	2016
CET1 ratio	23.07%	19.97%
Tier 1 ratio	23.07%	19.97%
Capital adequacy ratio	23.07%	19.97%
CET1 ratio pursuant to transitional provisions	5.97%	5.32%
of which shareholders' equity buffer pursuant to OFoP (shareholders' equity ordinance)	1.25%	0.63%
of which counter-cyclical buffer	0.22%	0.20%
CET1 ratio covering minimum requirements and capital margin net of AT1 and T2 requirements met by CET1	19.57%	16.17%
CET1 capital target pursuant to FINMA Circular 11/2 plus counter-cyclical capital (% of risk-weighted positions)	7.62%	7.60%
Available CET1 (% of risk-weighted positions)	19.27%	16.17%
Tier 1 capital target pursuant to FINMA Circular 11/2 plus counter-cyclical capital margin (% of risk-weighted positions)	9.22%	9.20%
Available Tier 1 (% of risk-weighted positions)	20.87%	17.77%
Regulatory capital target pursuant to FINMA Circular 11/2 plus counter-cyclical capital margin (% of risk-weighted positions)	11.42%	11.40%
Available regulatory capital (% of risk-weighted positions)	23.07%	19.97%

4.4 Leverage ratio (amounts in CHF/000)	2017	2016
Tier 1 capital	400.354	389.669
Leverage ratio exposure	3.608.410	3.981.657
Basel III leverage ratio	11.10%	9.79%

4.5 Liquidity coverage ratio (LCR) (amounts in CHF/000)	I Quarter 17	II Quarter 17	III Quarter 17	IV Quarter 17
Stock of high quality liquid assets (HQLA)	718.501	668.478	641.398	729.119
Expected total cash outflow	980.772	960.280	873.008	873.776
Expected total cash inflow	299.019	320.412	317.700	349.948
Total net cash outflow	681.752	639.868	555.307	523.828
LCR ratio	105.39%	104.47%	115.50%	139.19%

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To the General Meeting of
PKB Privatbank SA, Lugano

Lugano, 11 April 2018

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of PKB Privatbank SA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 14-37), for the year ended 31 December 2017.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss Banking law and comply with Swiss law.

Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of group 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 SA

Erico Bertoli
Licensed audit expert
(Auditor in charge)

Beatrice Groppelli
Licensed audit expert

Contents

COMMENTS ON THE BALANCE SHEET

Balance sheet total

At 31.12.2017, assets totalled CHF 2,348.8 million versus liabilities of CHF 1,983.8 million; shareholders' equity, including net profit for the period, was consequently CHF 365.0 million. The balance sheet total decreased by CHF 361.4 million, or 13.3% compared with the previous year.

Assets

Liquid assets

This item includes cash deposits and amounts due from the SNB. The total of CHF 448.7 million covers the legal requirement for primary liquidity.

Amounts due from banks

The amounts due from banks fell by CHF 120.6 million (–37.0%), from CHF 325.9 million to CHF 205.3 million.
These were mainly funds deposited with major banks in OECD countries. Notice deposits totalled CHF 41.5 million, while sight deposits amounted to CHF 163.8 million.

Amounts due from clients

Amounts due from clients decreased by 5.1% from CHF 563.8 million to CHF 534.9 million.

Mortgage loans

Mortgage loans decreased by 0.8%, from CHF 807.7 million to CHF 801.4 million.

Trading portfolio assets

At 31.12.2017 the Bank did not have any open positions within the trading portfolio.

Positive replacement values of derivative financial instruments

Positive replacement values totalled CHF 16.6 million, compared with CHF 29.0 million in the previous year (–43.0%) and relate to transactions in derivative financial instruments, taken out on the Bank's own account or on behalf of clients, and represent counterparty risk.

Financial investments

At 31.12.2017, financial investments totalled CHF 155.1 million, compared with CHF 187.5 million in the previous year (–17.3%). Investments in funds totalled CHF 12.3 million (CHF 18.1 million at 31.12.2016), while investments in fixed income securities amounted to CHF 142.8 million (CHF 169.4 million at 31.12.2016), of which CHF 33.5 million were pledged to bank correspondents (CHF 31.2 million at 31.12.2016).

Main participations

The Bank owns the entire share capital of PKB Banca Privada (Panama) SA and PKB Alasia SA, Lausanne, 99.56% of Cassa Lombarda Spa, Milan and directly owns 70% of PKB Servizi Fiduciari SpA.
It also has minority shareholdings in Anthilia Capital Partners Spa, Milan (26.6%), EIH Endurance Investments Holding SA, Lugano (25%), Aduno SA, Zurich (0.28%), SIX SA and Pfandbriefbank AG, Zurich (0.001%).
In the course of financial year 2017, the shareholders of Anthilia Capital Partners Spa, Milan, exercised the call option for 16% of the capital. Upon completion of the transfer of equity certificates, the Bank's direct shareholding will be 10.6%
In the course of the year, the Bank also liquidated and returned the shares of the investee Planetarium PKB consultoria SA, Montevideo.

Tangible fixed assets

These fell from CHF 28.6 million to CHF 25.9 million (– CHF 2.7 million, or 9.4%). They include buildings owned by the Bank, furniture, fixtures and fittings, any capitalised renovation work, hardware and software.

Intangible assets

This is the goodwill paid for the acquisition of LLB which following amortisation for the year, fell from CHF 6.0 million to CHF 3.0 million (–50.0%).

Other assets

Other assets rose to CHF 12.7 million at 31.12.2017, from CHF 10.4 million at the end of the previous year. This item mainly consists of the clearing account where the revaluation of hedging instruments, amounting to CHF 12.3 million, is registered.

Liabilities

Amounts due to banks

Amounts due to banks fell from CHF 190.0 million to CHF 151.1 million (–20.5%).

Amounts due in respect of client deposits

These decreased by CHF 365.5 million, or 18.1% (CHF 1,649.5 million at 31.12.2017, CHF 2,105.0 million at 31.12.2016). The decrease concerned in particular deposits in USD (– CHF 276 million) as a result of the gradual increase in interest rates.

Negative replacement values of derivative financial instruments

Negative replacement values totalled CHF 25.5 million, compared with CHF 32.0 million in the previous year (–20.3%) and relate to transactions in derivative financial instruments, taken out on the Bank's own account or on behalf of clients, and represent a liability in respect of counterparties.

Other liabilities

At 31.12.2017 these totalled CHF 0.9 million (– CHF 6.8 million, or 87.7% compared with the previous year). This entry only includes liabilities resulting from indirect taxes. The decrease compared to the previous year is due to the reclassification to the assets side of the balance sheet of the clearing account in which the revaluation of hedging instruments on the exchange rate risk of shareholdings in foreign currency is registered.

Shareholders' equity

Shareholders' equity on the balance sheet totalled CHF 360.3 million (excluding reserves for general banking risks and net profit for the year), up on the figure of CHF 359.2 million in the previous year. The increase is due to the share of the net profit for 2016 allocated to reserves.

Revenues

Looking at the various aggregates of the income statement, we see that the gross result from interest operations was CHF 21.8 million, down by more than 17% compared to the previous year (CHF 26.3 million), as the main result of lower income from interest on the securities portfolio as well as the smaller volume of liquidity in USD available for treasury swap activities. The positive change in value adjustments for risks of loss and losses from interest operations made this year (+CHF 0.3 million) compared with a negative change recorded last year in the amount of approximately CHF 3.8 million meant that the net result from interest operations settled at CHF 22.1 million, a decrease of only around 2% compared with the previous year (CHF 22.5 million).
The result from commission business and services was down (–5.3%): the result was negatively affected by securities trading and investment activity (–9.7%), fees for credit transactions (–7.5%) which were only partially offset by the positive change in Commission income from other services (+12.8%) and by the reduction in commission expense (–16.4%). The reduction in commission income is due in particular to the pressure on margins, while the volume of client assets remained virtually unchanged.
The result from trading operations totalled CHF 9.1 million, down compared to CHF 11.3 million in the previous year (–19.2%): securities trading closed down (–16.7%), as did trading on currencies and precious metals (–20.2%), as the main consequence of the decrease in trading volumes.
Other results from ordinary activities amounted to CHF 0.6 million, down 63.7% compared with CHF 1.6 million in the previous year. These were particularly affected by income from equity investments (–82.5%) and the result from real estate (–43.1%).
Total revenues break down as follows:

26.8%	net result from interest operations
61.4%	result from commission business and services
11.1%	result from trading activities
0.7%	result from other ordinary activities.

Operating expenses

Operating expenses decreased by 3.9% compared with the previous year.
Personnel expenses decreased by 2.7% to CHF 54.4 million (CHF 55.9 million in 2016). The decrease is due in particular to the variable component of remuneration.
Other operating expenses decreased by 7.7% to CHF 16.8 million (CHF 18.2 million in 2016). Net of non-recurring items, the decrease would have been 3.7%, due mainly to the austerity measures undertaken by the Bank.

Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets

The total cost, which includes writedowns of the value of equity investments for CHF 1.5 million, is down 22.8% compared with the previous year in particular thanks to the full depreciation of investments in tangible fixed assets.

Changes in provisions and other value adjustments and losses

The net change shows a cost of CHF 0.7 million and includes CHF 1.3 million relating to the confiscation of proceeds by FINMA as part of the enforcement procedure.

Operating result

The operating result for the year amounted to CHF 2.2 million, a decrease of 67.2% compared to the previous year (CHF 6.7 million).

Extraordinary income

Extraordinary income amounted to CHF 3.5 million: CHF 2.6 million attributable to the share of goodwill arising from the sale of PKB Privatbank Ltd, St. John's, Antigua, and the remaining 0.9 million to various contingent assets.

Profit for the year

Net profit for the year was CHF 4.8 million; this compared to CHF 8.6 million the previous year, i.e. a decrease of 44.4%.

BALANCE SHEET

Assets — AMOUNTS IN CHF	2017	2016
Liquid assets	448,661,135.91	602,584,323.15
Amounts due from banks	205,336,059.77	325,933,939.79
Amounts due from clients	534,942,975.29	563,773,066.37
Mortgage loans	801,350,519.38	807,689,767.63
Trading portfolio assets		
Positive replacement values of derivative financial instruments	16,555,386.47	29,037,065.67
Financial investments	155,084,347.31	187,525,194.86
Accrued expenses and deferred income	7,846,062.90	10,852,271.20
Participations	137,385,816.43	137,867,193.15
Tangible fixed assets	25,919,113.86	28,623,656.79
Intangible assets	2,983,031.79	5,966,063.63
Other assets	12,731,618.90	10,437,276.18
Total assets	**2,348,796,068.01**	**2,710,289,818.42**

Liabilities · AMOUNTS IN CHF	2017	2016
Amounts due to banks	151,083,587.72	190,036,950.03
Amounts due in respect of customer deposits	1,649,471,538.69	2,014,953,728.39
Negative replacement values of derivative financial instruments	25,517,467.00	32,021,098.44
Mortgages from issuers of mortgage bonds and loans	62,800,000.00	
Accrued expenses and deferred income	20,335,577.38	23,021,476.10
Other liabilities	947,965.81	7,731,791.57
Provisions	25,249,538.67	26,394,369.73
Reserves for general banking risks	48,350,000.00	48,350,000.00
Bank's capital	20,000,000.00	20,000,000.00
Statutory capital reserve	67,867,600.00	67,867,600.00
of which tax-exempt capital contributions reserve	*67,867,600.00*	*67,867,600.00*
Statutory retained earnings reserve	41,000,000.00	41,000,000.00
Voluntary retained earnings reserve	217,000,000.00	216,000,000.00
Profit carried forward	14,412,804.15	14,351,266.17
Net profit for the year	4,759,988.59	8,561,537.99
Total Liabilities	**2,348,796,068.01**	**2,710,289,818.42**

OFF-BALANCE SHEET TRANSACTIONS

AMOUNTS IN CHF	2017	2016
Contingent liabilities	27,269,066.25	42,034,124.69
Irrevocable commitments	11,097,340.00	26,391,237.88
Obligation to pay-up shares and make further contribution	4,080,371.31	3,370,711.39

PKB

INCOME STATEMENT

AMOUNTS IN CHF	2017	2016
Result from interest operations		
Interest and discount income	24,361,535.86	25,479,180.38
Interest and dividend income from trading portfolios	188,171.01	220,718.09
Interest and dividend income from trading portfolios	1,154,931.07	3,554,418.27
Interest expense	–3,892,407.91	–2,939,156.52
Sub-total: gross result from interest operations	**21,812,230.03**	**26,315,160.22**
Changes in value adjustments for default risks and losses from interest operations	269,675.50	–3,795,270.62
Sub-total: net result from interest operations	**22,081,905.53**	**22,519,889.60**
Result from commission business and services		
Commission income from securities trading and investment activity	51,987,081.47	57,577,896.84
Commission income from lending activities	745,253.70	805,782.42
Commission income from other services	7,660,265.86	6,789,109.93
Commission expense	–9,898,778.06	–11,836,344.56
Sub-total: result from commission business and services	**50,493,822.97**	**53,336,444.63**
Result from trading activities and fair value option	**9,111,009.88**	**11,276,777.83**
Other result from ordinary activities		
Result from the disposal of financial investments	75,713.94	226,026.72
Income from participations	71,903.00	412,135.48
Result from real estate	429,158.24	753,886.99
Other ordinary income		194,622.72
Other ordinary expenses	–1,664.14	
Sub-total: other results from ordinary activities	**575,111.04**	**1,586,671.91**
Net revenues	**82,261,849.42**	**88,719,783.97**
Operating expenses		
Personnel expenses	–54,446,537.05	–55,942,497.66
General and administrative expenses	–16,835,232.84	–18,237,770.36
Sub-total: operating expenses	**–71,281,769.89**	**–74,180,268.02**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	–8,041,000.33	–10,413,701.14
Changes to provisions and other value adjustments and losses	–737,537.80	2,582,634.54
Operating result	**2,201,541.40**	**6,708,449.35**
Extraordinary income	3,448,609.02	4,044,172.08
Extraordinary expenses	–120,162.49	–49,191.03
Changes in reserves for general banking risks		
Taxes	–769,999.34	–2,141,892.42
Net profit for the year	**4,759,988.59**	**8,561,537.98**

APPROPRIATION OF PROFITS

Recommendation of the Board of Directors — AMOUNTS IN CHF	2017	2016
Net profit for the year	4,759,988.59	8,561,537.98
Profit carried forward	14,412,804.15	14,351,266.17
Distributable profit	**19,172,792.74**	**22,912,804.15**
Appropriation of profits		
– Allocation to statutory retained earnings reserve		
– Allocation to voluntary retained earnings reserve	1,000,000.00	1,000,000.00
– Distribution of distributable profit		7,500,000.00
New amount carried forward	**18,172,792.74**	**14,412,804.15**

STATEMENT OF CHANGES TO SHAREHOLDERS' EQUITY

AMOUNTS IN CHF	Bank's capital	Capital reserves	Reserves earnings	Reserves for general banking risks	Currency translation reserves	Voluntary retained earnings reserve and profit/ loss carried forward	Own shares (negative item)	Minority interests	Result for the period	Total
Equity at start of current period	**20.000**	**67.868**	**41.000**	**48.350**		**230.351**			**8.561**	**416.130**
Dividends and other distributions									–7.500	–7.500
Other allocations to/ withdrawals from other reserves						1.061			–1.061	
Profit of the period									4.760	4.760
Equity at the end of current period	**20.000**	**67.868**	**41.000**	**48.350**		**231.412**			**4.760**	**413.390**

1. Operations and workforce

PKB Privatbank AG is present in Lugano (registered office), where it operates as a universal bank and in Bellinzona, Geneva, Zurich and Lausanne, where it provides private banking services.
The Bank's main activities include asset management and all related services, market making on the primary Swiss franc bond market, currency trading and commercial business.
At 31.12.2017, the workforce, expressed as FTEs, was 257.6 (2016: 258.3).
The Bank undertakes all essential activities in-house and does not outsource.

2. Accounting and valuation policies applied to the annual financial statements

Accounting and valuation policies

The accounting principles used in the preparation of the annual financial statements comply with the Swiss Federal Law on Banks and Savings Banks, and the provisions of the Swiss Financial Markets Supervisory Authority (FINMA) Circular 2015/1 «Accounting Directives – Banks».
The Bank prepares the statutory single-entity financial statements according to the principle of reliable representation. The accounts are presented by registration date. The criteria listed below were adopted.

Foreign funds and currencies

Valued at year-end rates. Exchange rate differences are recognised in the income statement under «Results from trading activities and fair value option». The exchange rates used for the main currencies were as follows: EUR 1.1702 (2016: 1.0722) USD 0.9748 (2016: 1.0157).

General receivables and commitments

Valued at nominal value, net of value adjustments.

Trading portfolio assets

Valued at market value.

Financial investments

Equities: valued at market value at the end of the year, but not above purchase price. Fixed income securities: the difference between the purchase price and the redemption value is distributed over the years from purchase to maturity.

Participations

Valued at purchase price, minus economically necessary amortisation.

Tangible fixed assets

These are booked at cost minus ordinary and extraordinary depreciation. Depreciation is applied on a straight-line basis. Works of art valued at less than CHF 30,000.00 are fully depreciated in the year of purchase, while those valued at over CHF 30,000.00 are depreciated at a rate of 10% for up to 50% of the purchase cost. All other fixed assets are shown on the balance sheet at the lower of cost and market value.
Ordinary depreciation periods are as follows:

Properties used by the Bank	maximum	50 years
Renovations	maximum	3 years
Plant	maximum	3 years
Furniture	maximum	3 years
Equipment and vehicles	maximum	3 years
Hardware/software	maximum	3 years
Intangible assets	maximum	5 years

Solvency risks

Where necessary, specific value adjustments are booked and then deducted from their respective item under assets.

Doubtful interest

Interest and commission over 90 days overdue are not recognised in revenues, but provisions are made for them. The loans in question are considered non-performing.

Result from trading activities and the fair value option

This is recognised in the income statement before deduction of refinancing costs.

Contingent liabilities, irrevocable commitments, payment and credit commitments

Off-balance sheet transactions are recorded at nominal value. Any provisions for recognised risks are reported under the item «Provisions».

Derivative financial instruments

These are valued at market value, mark-to-market. The Bank's use of derivative financial instruments on its own behalf mainly concerns hedging transactions and marginally trading within the limits established by internal regulation.

Criteria applied for identifying risks of losses and calculating value adjustments

Credit files are analysed regularly and at least once a year.
Where necessary depending on the risk, analysis is conducted more frequently and promptly, particularly for non-performing loans. Value adjustments required for any portion of the loan not covered by guarantees are recorded immediately.

Collateral assets for loans

Liquidation value is calculated on the basis of market price or realised value, from which the costs of liquidation and refinancing are deducted.

Risk assessment and management

Risk assessment and management form an integral part of the internal control system, as required by FINMA circular 17/1. The Board of Directors is responsible for the Bank's internal control system, for which it sets the guidelines and periodically checks that they are sufficient and operating correctly.
The Board of Directors is supported in its duties by an Audit Committee, which advises and makes proposals. The Executive Board is responsible for operational management, and in turn is supported by the Risk Committee (RICO) and the Compliance Committee (COCO), responsible for defining the procedures for measuring, managing and controlling risk for the PKB Group. The RICO and the COCO meet at least every quarter, and have an integrated Group risk reporting system. Internal Audit checks and assesses the internal control system, and thereby helps to constantly refine it.
In compliance with current legal requirements, the Bank has produced its own regulations for the consolidated supervision of the Group and a risk policy. These set out integrated guidelines for risk assessment and management with which all Group companies must comply. The risk assessment and management policy, which is examined every year by the Board of Directors, forms the basis of the Bank's risk management process. It is linked to a set of ceilings that cover each identified risk category and are checked constantly, particularly with regards to the risks set out below.

Credit risk

Credit risk is regulated by the Board of Directors through the Credit Policy and the PKB Group Credit Regulation. The Executive Board manages credit risk through the Credit Committee (COCR), which supervises the application of company strategies, and analyses, in terms of quality and quantity, the solvency of counterparties and their respective guarantees.
Credit risk is controlled by limiting risk and exposure at PKB Group level, by limiting concentration of risk in counterparty groups (large risks and 10 major debtors) and by country. Del credere and country risk are subject to special provisions.
Supervisory capital requirements for credit risk are calculated using the international method, with a comprehensive approach to the treatment of guarantees.

Market risk (balance sheet)
The market risk on balance sheet assets is managed through the asset & liability management policy of the PKB Group approved by the Board of Directors. The Executive Board supervises market risk through the Asset & Liability Committee (ALCO).
Interest rate risk is controlled using income and value effect indicators, which are calculated using stress scenarios, while credit, counterparty and exchange rate risk are controlled using a system of exposure limits. The interest rate risk for fixed-rate loans to customers is hedged mainly with interest rate swaps. The effectiveness of the hedge is verified using the ratio between the nominal value of the derivative and the credit (or aggregates of loans) which must be less than or equal to 100%, and have the same currency and six-month maturity band. In line with FINMA Circular 2015/1 «Accounting Directives», for these hedging instruments the Bank applies hedge accounting.
Interest rate risk is calculated using the modified duration method as required by the supervisory authorities.
Exchange rate risk is hedged mainly by forward rate agreements and currency options.

Market risk (trading portfolio)
Trading portfolio management is governed by the PKB Group Trading Policy approved by the Board of Directors and by directives approved by the Executive Board. The Bank is a market maker on the primary CHF bond market, and also operates on the forex, bond and equity markets.
The trading portfolio market risk is controlled using a system of exposure limits, the results of which are reported to the Executive Board.
Supervisory capital requirements for market risk are calculated using the standard method, with a delta-plus approach for options.

Liquidity risk
Liquidity risk is regulated by the Board of Directors through the Asset & Liability Management Policy and the Liquidity Regulation, both valid at PKB Group level. The Executive Board supervises and manages liquidity risk through ALCO.
Liquidity risk is supervised in accordance with legal requirements and the results of checks are reported in ALCO.

Operating risk
Operating risk, which includes legal and compliance risks, is managed by the Board of Directors through the PKB Group's Operational Policy and the Group Legal & Compliance Policy, as well as implementing regulations, while the Executive Board also issues directives on operating risk management.
Operating risk management is organised as follows:

- processes: the Bank governs its own operations, in particular those that are likely to have an impact on the outside world, in accordance with the legal requirements and ethical standards applying to banking. It ensures that operations and contracts involving clients are comprehensible and transparent, particularly financial derivative contracts in respect of which the Bank has signed agreements with ISDA and CSA. Functions are separated to mitigate operating risk;
- human resources: the Bank's aim is to recruit qualified personnel capable of implementing its strategy and identifying with its culture. The latter is reflected by management and staff as well as by the Group's approach to risk management. Compliance risk and its impact on the Bank's reputation is mitigated through ongoing training and awareness-raising of staff at all levels, a clear definition of work processes and responsibilities and the dissemination of a corporate culture founded on the pillars of irreproachable activity and the highest standards of professional ethics. The Bank also adopted a PKB Charter of Values that was presented and discussed at all levels throughout the Bank. The Bank has a Legal & Compliance department that handles operational risk relating to legal, conduct, anti-money laundering and compliance matters;
- internal systems: the Bank has the internal and external expertise necessary to ensure the management of its IT system;

- external events: the Bank has implemented security measures specifically designed to prevent unauthorised persons from accessing areas where sensitive documents are stored. The Executive Board has introduced a general continuity plan in order to ensure the continuity of its activities, with a detailed analysis looking at the various scenarios considered, and has identified the minimum resources necessary to implement the continuity plan.

Operating risk is monitored by a system for identifying loss, a risk self-assessment process and a series of Key Risk Indicators, the results of which are reported in RICO. Operational risk is subject to special provisions. Capital adequacy requirements for operating risk are calculated using the basic method.

Legal risk
To prevent risks, the Bank ensures that its operations, particularly those likely to have an impact on the outside world, are in line with the legal requirements and ethical standards applying to the banking sector, and that operations and contracts involving clients are comprehensible and transparent.

Reputational and compliance risk
Unlike compliance risks, which concern only the breach of laws and regulations, damage to reputation can be caused by such a break or even by behaviour that the public considers inappropriate or unacceptable, even though it is fully compliant with the law and regulations. In order to take into account the wide range of reputational risks, Banca PKB has produced a Charter of Values, designed to support a corporate culture based on impeccable conduct and leading professional standards.
Compliance risks are managed through a whole series of policies and procedures that cover all the Bank's areas of business. Given the international nature of our business, internal rules go beyond the Swiss legal and regulatory framework, and address all cross-border activities and issues relevant to the way we serve our clients, in particular in the areas of investment advisory services and trading on foreign financial markets.
Strict compliance with the law, standards and internal regulations is assured through a three-level control programme. The main responsibility for compliance with all these rules lies with the line manager. The first level of control is mainly based on process and workflow checks to ensure compliance with the Group's four-eyes principle, and on an escalation system. Ongoing training for staff at all levels is an integral part of our efforts to mitigate reputational and compliance risks. The second level of control includes independent checks by operating department Legal & Compliance, which reports to the Executive Board. Risks are assessed once a year and a specific action plan is produced to ensure compliance risks are addressed promptly and correctly. The third level of control includes audits performed by Internal Audit, which is not an operating department and reports to the Board of Directors. Internal Audit also carries out independent controls.

Bank policy on the use of derivative financial instruments

Positions taken in derivatives are, in general, held on behalf of clients.
The Bank makes use of interest rate risk hedging transactions for the structural management of the balance sheet, through interest rate swaps and forward rate agreements.

Significant events following the end of the financial year

Following the end of the financial year, there were no events that would have a significant impact on the Bank's equity or income position.

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3. Details on individual positions in the notes to the financial statements

3.1 Presentation of loan collateral and off-balance sheet transactions, as well as impaired loans/receivable

AMOUNTS IN CHF/000	TYPE OF COLLATERAL			TOTAL
	Secured by mortgage	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	146.661	376.873	31.915	555.450
Mortgage loans	801.351			801.351
Residential property	551.143			551.143
Office and business premises	201.699			201.699
Commercial and industrial premises	15.185			15.185
Other	33.325			33.325
Total loans (prior netting with value adjustments)				
Current financial year	948.011	376.873	31.915	1.356.800
Previous financial year	*955.486*	*411.220*	*24.254*	*1.390.960*
Loans (after netting with value adjustments)				
Current financial year	948.011	361.837	26.445	1.336.293
Previous financial year	*955'486*	*394'082*	*21'895*	*1.371.463*
Off-balance sheet				
Contingent liabilities	1.636	25.442	191	27.269
Irrevocable commitments	5.988	698	4.412	11.097
Obligation to pay-up shares and make further contribution			4'080	4'080
Off-balance sheet total				
Current financial year	7.624	26.140	8.683	42.447
Previous financial year	*15.622*	*42.954*	*13.220*	*71.796*
Impaired loans				
	Gross debt	Estimated realizable value of collateral	Net debt	Individual value adjustments
Current financial year	30.608	10.369	20.239	20.507
Previous financial year	*29.372*	*10.020*	*19.351*	*19.497*

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

No positions at 31.12.2017 or at 31.12.2016

3.3 Presentation of derivative financial instruments

AMOUNTS IN CHF/000

	INSTRUMENTS HELD FOR TRADING			HEDGING INSTRUMENTS		
	Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
Interest rate instruments						
Swaps	5.305	4.706	149.851	1.601	5.866	259.347
Options (OTC)	7.075	7.075	263.806	3	5.134	55.816
Foreign exchange / Precious metals						
Forward contracts	283	219	26'151			
Combined interest rate/currency swaps	600	624	92.881	1.649	1.855	545.252
Options OTC	39	39	22.265			
Equity securities/indices						
Options OTC						
Total before netting agreement						
Current financial year	13'302	12'663	554'953	3'253	12'854	860'415
Previous financial year	*16'097*	*14'681*	*572'833*	*12'940*	*17'340*	*1'226'010*

Total after netting	Positive replacement values (cumulative)	Negative replacement values (cumulative)
Current financial year	16.555	25.517
Previous financial year	*29.037*	*32.021*

Breakdown by counterparty	Central clearing houses	Banks and securities dealers	Other customers
Positive replacement values (after netting agreements)		3.831	12.724

Hedging instruments pursuant to 431 FINMA Circular 2015/1

3.4 Breakdown of financial investments

AMOUNTS IN CHF/000

	Book value		Fair value	
	2017	2016	2017	2016
Debt securities	142.798	169.409	144.168	172.301
of which intended to be held to maturity	142.080	168.349	143.450	171.234
Equity securities	12.287	18.116	14.615	19.553
Total	**155.084**	**187.525**	**158.783**	**191.854**
of which securities eligible for pensions under liquidity rules	*33.531*	*24.490*	*33.801*	*25.014*

Breakdown of counterparties by rating

	From AAA up to AA–	From A+ up to A–	From BBB+ up to BBB–	From BB+ up to B–	Less than B–	No rating
Debt securities: Book values	86.401	24.768	9.132	55	12	22.429

3.5 Breakdown of other assets and other liabilities

AMOUNTS IN CHF/000	2017 Other assets	2017 Other liabilities	2016 Other assets	2016 Other liabilities
Compensation account	12.284		10.168	6.519
Indirect taxes	435	948	266	1.128
Other receivables and liabilities	13		3	85
Total	**12.732**	**948**	**10.437**	**7.732**

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

AMOUNTS IN CHF/000	Book values	Effective commitments
Assets pledged / assigned		
Bonds used as collateral to banks	33.531	33.531
Mortgages used to guarantee loans from central mortgage bond institutions	85.440	62.800

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

AMOUNTS IN CHF/000	2017	2016
Total	**18.345**	**20.879**

The Bank's employees are registered with an autonomous and independent pension fund in accordance with the law on occupational pensions in Switzerland (LPP). Regulations require the use of defined contributions schemes. Pension liabilities are calculated each year by an actuary. The Bank accounts for its contributions to the employees' occupational pension scheme as expenses for the financial year concerned.

3.8 Disclosure on the economic situation of own pension schemes

Employer contribution reserves (ECR)

AMOUNTS IN CHF/000	Nominal value at 31.12.2017	Waiver at 31.12.2017	Net amount at 31.12.2017	Net amount at 31.12.2016	Impact of ECR on personnel expenses 2017	Impact of ECR on personnel expenses 2016
LPP pension fund for employees of PKB Privatbank AG	1.300		1.300	1.300		
Total	**1.300**		**1.300**	**1.300**		

Presentation of the economic benefit/ obligation and the pension expenses

AMOUNTS IN CHF/000 Pension fund	Overfunding/underfunding at 31.12.2017	Economic share of the bank and/or the financial group 2017	Economic share of the bank and/or the financial group 2016	Change in economic share in reporting year	Contributions paid for the reporting period	Pension charges within personnel expenses 2017	Pension charges within personnel expenses 2016
With overfunding	15.859				6.494	5.013	5.101
Total	**15.859**				**6.494**	**5.013**	**5101**

For each pension plan, the Bank must determine whether reserve levels and the particular circumstances of the pension fund give rise to a surplus or a shortfall. The assessment is based on the financial position at 31 December 2016 and the change in the financial position over 2017.
Based on the estimates received from the pension fund, the reserve levels in accordance with art. 44 OPP2 (Ordinanza sulla previdenza professionale – Occupational Pension Order) were 110.3% (2016: 106.7%).

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

AMOUNTS IN CHF/000

	Balance at 31.12.2016	Use in conformity with designated purpose	Transfers	Currency rate differences	Past due interest, recoveries	New provisions charged to the income statement	Releases to the income statement	Balance at 31.12.2017
Other provisions	26.394	–3.238		–4		2.869	–771	25.520
Total provisions	**26.394**	**–3.238**		**–4**		**2.869**	**–771**	**25.520**
Reserves for general banking risks	**48.350**							**48.350**
Value adjustment for default and country risks	**20.097**	**–45**		**808**	**111**	**681**	**–545**	**21.107**
of which, value adjustments for default risks in respect of impaired loans/receivables	19'497	–45		808	111	681	–545	20.507
of which value adjustments for latent risks	600							600

The item «Other provisions» includes CHF 11.3 million allocated to the retention plan, CHF 6.6 million for legal risks, CHF 2.6 million for tax risks and CHF 1.3 million to hedge country risk.
Contingent liabilities whose outcome can be estimated were allocated on the basis of the best available estimate.

3.10 Presentation of share capital

AMOUNTS IN CHF/000

	2017			2016		
	Total nominal value	Number of ordinary shares	Capital eligible for dividend	Total nominal value	Number of shares	Capital eligible for dividend
Share capital (full paid)	20.000	20.000	20.000	20.000	20.000	20.000
Total share capital	**20.000**	**20.000**	**20.000**	**20.000**	**20.000**	**20.000**

At 31.12.2017 and at 31.12.2016, there were no voluntary restrictions on the distributable nature of reserves.

3.11 Disclosure of amounts due from/to related parties

AMOUNTS IN CHF/000

	AMOUNTS DUE FROM		AMOUNTS DUE TO	
	2017	2016	2017	2016
Holders of qualified participations			17.452	4.280
Group companies	10.694	10.943	94.640	91.557
Affiliates			19'313	1'502
Transactions with members of governing bodies	1.878	6.887	11.948	12.640

Loans to members of governing bodies are granted under the same conditions applied to Bank employees. Transactions with affiliates are conducted under arm's length conditions, and relate to securities transactions, payment traffic and treasury transactions.

3.12 Disclosure of holders of significant participations

AMOUNTS IN CHF/000

	2017		2016	
	Nominal	%	Nominal	%
with voting rights: Auriga SA, Luxembourg	20.000	100.00	20.000	100.00

There is no conditional capital, and there are no significant shareholders without voting rights.
Luxembourg company Auriga S.A. holds 100% of the Bank's share capital. The voting rights of the latter are controlled indirectly, for 51.844%, by the family of the late Serafino Trabaldo Togna. Further significant shareholdings are held by the heirs of the late Achille Trabaldo Togna and Piero Trabaldo Togna.»

3.13 Breakdown of total assets by credit rating of country groups (risk domicile)		NET FOREIGN EXPOSURE AT 31.12.2017		NET FOREIGN EXPOSURE AT 31.12.2016	
Bank's country rating	Moody's	in CHF/000	%	in CHF/000	%
1-2	Aaa – Aa3	552.681	86.8%	659.713	93.2%
3	A1 – A3	2.270	0.4%	1.668	0.2%
4	Baa1 – Baa3	70.651	11.1%	28.835	4.1%
5	Ba1 – Ba3	1.851	0.3%	2.037	0.3%
6	B1 – B3	7.693	1.2%	8.908	1.3%
7	Caa1 – C	103	0.0%	88	0.0%
0	No rating	1.334	0.2%	6.307	0.9%
Total assets		**636.583**	**100%**	**707.556**	**100%**

The Bank measures country risk using Swiss Export Risk Insurance (SERV) ratings. These are compared with Moody's ratings in the table above

3.14 Breakdown of fiduciary transactions AMOUNTS IN CHF/000	2017	2016
Fiduciary investments with other banks	91.228	15.733
Fiduciary investments with Group banks and affiliated banks	1.044	1.006
Fiduciary loans		
Total	**92.272**	**16.739**

3.15 Breakdown managed assets and presentation of their development

a) Breakdown managed assets AMOUNTS IN CHF/000	2017	2016
Type of asset		
Assets held in self-managed collective investment schemes	922.590	843.177
Asset under discretionary asset management agreements	3.017.566	2.906.403
Other managed assets	3.756.073	3.914.157
Sub-total: managed assets (incl. double counting)	**7.696.229**	**7.663.737**
of which double counting	*530.759*	*507.753*
Commercial clients – Custody only	144.243	135.440
Sub-total: other client assets	**144.243**	**135.440**
Total client assets (incl. double counting)	**7.840.472**	**7.799.177**

b) Presentation of the development of managed assets AMOUNTS IN CHF/000	2017	2016
Total managed assets (incl. double counting) at start of period	**7.663.737**	**8.296.792**
+/– Net new money inflow or net new money outflow	–479.481	–801.851
+/– Change in market prices, interest, dividends and exchange rates	511.973	168.796
+/– Other effects*		
Total managed assets (incl. double counting) at end of period	**7.696.229**	**7.663.737**

Other managed assets includes all client assets (private, commercial and institutional) held for investment on which the Bank receives commission and/or fees in addition to custody fees and other account-keeping expenses.
All other assets held in custody by the Bank that do not meet the above criteria are considered «custody only». The breakdown complies with the provisions of FINMA Circular 2015/1.
Assets under management are client assets managed in accordance with the profile chosen by the client.
Receivables due from clients are not deducted from total managed assets.
Net contributions/withdrawals include actual inflows and outflows of client funds and assets but do not include the performance of securities or currencies, interest, charges, commission or dividends.

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

a) Breakdown by business area (Based on the organisation of the bank and/or the financial group) AMOUNTS IN CHF/000	2017	2016
Trading with mixed transactions	9.111	11.277

b) Breakdown by underlying risk and application of the fair value option AMOUNTS IN CHF/000	2017	2016
Result from trading activities from:		
– Interest rate instruments	2.597	3.140
– Equity securities (incl. funds)	19	–19
– Currencies	6.396	7.884
– Commodities/precious metals	99	272
Total result from trading activities	**9.111**	**11.277**

3.17 Breakdown of personnel expenses

AMOUNTS IN CHF/000	2017	2016
Remuneration (attendance fees, fixed compensation to members of the Bank's governing bodies, salaries and allowances)	42.716	44.237
Benefits	9.198	9.254
Other personnel expenses	2.533	2.451
Total personnel expenses	**54.447**	**55.942**

3.18 Breakdown of general and administrative expenses

AMOUNTS IN CHF/000	2017	2016
Building occupancy expenses	2.083	1.790
IT and telecommunications technology expenses	2.086	1.998
Expenses for vehicles, equipment, furniture and other fixtures, and operating leases	160	117
Audit fees (art. 961a no. 2 CO)	588	434
of which for accounting and supervisory audits	*588*	*434*
Sundry operating expenses	11.918	13.899
Total other operating expenses	**16.835**	**18.238**

3.19 Explanations concerning material losses, extraordinary revenue and expenses, material releases from undisclosed reserves, reserves for general banking risks and value adjustments and freed provisions

Of the total of CHF 3.4 million, the extraordinary income is attributable to the share of goodwill arising from the sale of PKB Privatbank Ltd, St. John's, Antigua for CHF 2.6 million, CHF 0.4 million are referred to the revaluation of equity securities and the remaining CHF 0.4 million to various contingent assets (of which CHF 0.3 million related to equity securities).
The extraordinary expenses are due, for CHF 0.1 million, to the sale of participation shares.

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

AMOUNTS IN CHF/000	2017		2016	
	Tax rate		Tax rate	
Current tax expense *	7.0%	770	14.7%	2.142
Total tax		**770**		**2.142**

* Average weighted rate applied to operating profit.
The 2017 tax cost comprises income of CHF 0.8 million deriving from the release of the 2013 provision for taxes.

4. Shareholders' equity and liquidity data published in accordance with FINMA Circular 16/1

4.1 Shareholders' equity — AMOUNTS IN CHF/000	2017	2016
Minimum shareholders' equity on the basis of risk-based requirements	81.831	93.138
Eligible shareholders' equity	273.776	265.190
of which basic shareholders' equity of primary quality (CET1)	273.776	265.190
of which basic shareholders' equity (T1)	273.776	265.190
Risk-weighted positions (RWA)	1.022.884	1.164.225
CET1 share (basic shareholders' equity of primary quality as % of RWA)	26.77%	22.78%
Share of basic shareholders' equity (basic shareholders' equity as % of RWA)	26.77%	22.78%
Overall share of shareholders' equity (as % f RWA)	26.77%	22.78%
Counter-cyclical shareholders' equity buffer (as % of RWA)	0.38%	0.33%
Target CET1 share (in %) pursuant to Annex 8 OFoP, plus counter-cyclical shareholders' equity buffer	6.13%	6.08%
Target T1 share (in %) pursuant to Annex 8 OFoP, plus counter-cyclical shareholders' equity buffer	9.38%	9.33%
Total target shareholders' equity (in %) pursuant to Annex 8 OFoP, plus counter-cyclical shareholders' equity buffer	11.58%	11.53%

4.2 Leverage ratio — AMOUNTS IN CHF/000	2017	2016
Tier 1 capital	273.776	265.190
Basel III leverage ratio	12.01%	10.07%
Leverage ratio exposure	2.279.422	2.633.023

4.3 Liquidity coverage ratio (LCR) — AMOUNTS IN CHF/000	I Quarter 17	II Quarter 17	III Quarter 17	IV Quarter 17
LCR ratio	104.61%	99.81%	108.21%	109.27%
LCR numerator: total high quality liquid assets	590.678	503.429	499.472	474.328
LCR denominator: total net outflow of funds	564.645	504.386	461.588	434.089

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To the General Meeting of
PKB Privatbank SA, Lugano

Lugano, 11 April 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of PKB Privatbank SA, which comprise the balance sheet, income statement, statement of changes in the equity and notes (pages 46-59), 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 as to 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

Erico Bertoli
Licensed audit expert
(Auditor in charge)

Beatrice Groppelli
Licensed audit expert

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