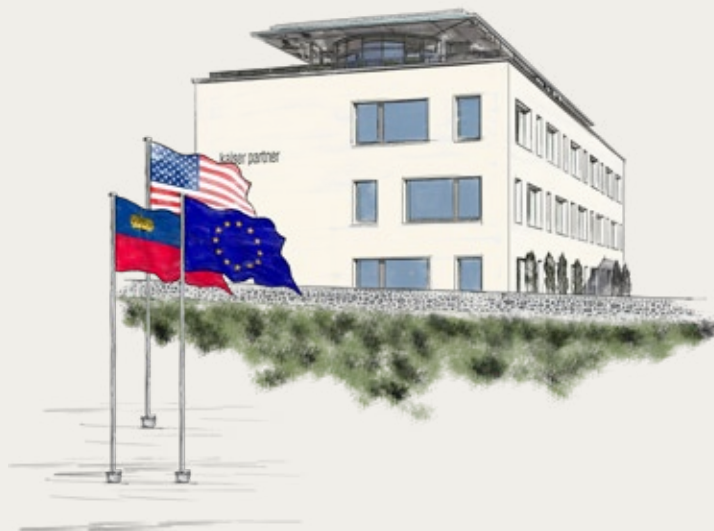




# Kaiser Partner Privatbank AG



Annual Report 2018

kaiser.partner

## Key figures 2018

(in CHF million, rounded)

12/31/2018

12/31/2017

Total income	23.3	17.4
Profit for the year	4.5	2.3
Results from ordinary activities	4.8	2.5
Equity before appropriation of profit	49.8	47.3
Total assets	561.9	463.0
Assets under management	4,026.1	2,674.2
Employees (FTE)	63.9	37.2

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# An exceptionally good financial year 2018

Annual Report of the Chairman of the Board and the Executive Board of Kaiser Partner Privatbank AG

Kaiser Partner Privatbank AG recorded an exceptionally good year in 2018. Assets under management grew by 51% to CHF 4,026 million. Operating income increased by 34% year-on-year. The profit practically doubled to CHF 4.5 million. In addition to strong organic growth, our bank acquired Bank Vontobel (Liechtenstein) AG at the end of February 2018 and fully integrated it at the end of March.

Our business model is based on proximity to our clients as well as a portfolio of services based on the philosophy of Responsible Investing. This means we invest our clients' assets in a sustainable and responsible way.

Despite the great uncertainty that dominated financial markets, particularly towards the end of the year, our clients were mostly able to maintain their positions. Even in this challenging market environment, the portfolios we managed for our clients performed relatively well, once again keeping up with the performance of our toughest competitors.

Kaiser Partner Privatbank AG operates on the principles of sustainability, stability and security. This is evident in our core capital ratio Tier 1 of 20.2%. Our bank remains very well capitalized, a foundation that allowed us to achieve positive, sustainable results once again. We see this as evidence of the lasting appeal of our approach: the values that we communicate, our holistic Wealth Management model and our rejection of retrocessions as well as a commitment to tax compliance, the protection of our clients' privacy and Responsible Investing. The positive development of Kaiser Partner Privatbank AG even extends beyond our figures: World Finance yet again honored us with the title "Best Private Bank in Liechtenstein."

By acquiring Bank Vontobel (Liechtenstein) AG and retaining its assets under management, Kaiser Partner Privatbank AG has proven that it is capable of convincing new clients of its values and performance. The integration of the bank took place during the first quarter, and we currently enjoy a cooperation with Vontobel Asset Management AG with regards to institutional clients. The acquisition has also brought new specialists into the ranks, further strengthening the expertise of our bank.

## A look back at 2018

The 2018 investment year started off with high expectations, with hardly anyone expecting that it would end up being the most difficult since the financial crisis. The first few weeks of the year seemed to fulfill those high expectations, with the U.S. S&P 500 reaching eleven new all-time highs within just the first 18 days of trading. This impressive start was partially thanks to recent U.S. tax reforms. However, the mood on the markets darkened in late January. The reasons were manifold. Emerging fears of inflation in the U.S. led to a relatively sharp rise in interest rates – and therefore a drop in bond prices. Political instability also increasingly played a role: the partial government shutdown in the U.S., surging support for populists in Italy, and emerging fears of a trade war between the U.S. and China. This uncertainty led to a stock market correction (defined as a price drop of more than 10%) at the end of January – the first in more than two years. The correction was particularly notable for its abruptness and severity: the S&P 500 lost more than 10% of its value within just 13 days.

Although geopolitical developments kept tensions high, positive news dominated the headlines again in the two quarters after the correction. For instance, the unemployment rate in the U.S. fell to 3.8% – the lowest in 18 years. On August 2, Apple purportedly became the first company to achieve market capitalization of more than USD 1 trillion.

In late August, the U.S. stock market made history with its 3,453-day rally – the longest since the end of the Second World War. However, such records and achievements are always relative and subjective. Apple was not actually the first company in the world to ever reach market capitalization of more than USD 1 trillion: Chinese oil company Petrochina already achieved that milestone on November 5, 2007. The U.S. stock market rally may have been the longest, but with an increase of 324% it was not the strongest: That record goes to the period between 1990 and 2000, when the S&P 500 grew by 417%, for example.

Following these two positive quarters, global markets suffered losses of around 7.5% in October alone. The reasons were diverse and numerous. In the U.S., for instance, stocks took a hit because of questions about the sustainability of prior profit growth in light of certain fiscal policies being discontinued.

European stocks came under considerable pressure from both the budget fight between Italy and the EU and all the uncertainty connected with Brexit.

Emerging markets, in particular China, had to deal with a strong U.S. dollar, rising interest rates, and the U.S.-China trade war – as was the case the whole year. Despite signs of a trade war truce towards the end of the year, the stock market remained strongly shaken until the end of the year – which also held true for other asset classes.

On the whole, nearly every asset class posted negative results in 2018. The sole exceptions were liquidity and state bonds in euros and U.S. dollars – although these were only positive by a small margin. The extent of the losses even exceeded those of 2008, when gold lived up to its reputation as a safe haven investment and the aforementioned state bonds achieved significantly higher profits. However, phases in which all asset classes post negative results are typically not long-lived. A professionally prepared and consistently executed portfolio strategy prove their value even more in times of such uncertainty (albeit in parts exaggerated). Our decision to position our client portfolios for a late-cycle macroeconomic environment with more defensive stocks turned out to be the right approach. Just like in 2017, which was characterized by significant profits, we also came out strong relative to our competitors in 2018, placing among the top third of wealth managers despite the very challenging conditions. This demonstrates that good investment performance does not come from taking on excessive risk, but rather from consistently implementing a portfolio strategy and selecting investments that are tailored to the current macroeconomic environment.

## Financial results for 2018

### Positive growth in client assets and profit

All important financial indicators enjoyed significant positive year-on-year development as a result of the acquisition and integration of Bank Vontobel (Liechtenstein) AG. Client assets under management grew from CHF 2,674 million to CHF 4,026 million in 2018 – an increase of CHF 1,352 million, or 51%. This positive performance was based on the aforementioned acquisition (CHF 1,484 million as of April), net new money outflow of CHF –8 million and a negative market effect of CHF –124 million. The high percentage of assets under management (36%) underscores clients' appreciation of our asset management capabilities, which are based on a sustainable approach.

Despite a year of challenging market conditions – negative interest rates, volatile financial markets, and increasing pressure to achieve margins and cope with regulations – Kaiser Partner Privatbank AG was able to post CHF 4.5 million in profits, a 99% increase year-on-year.

Total gross income for the reporting period amounted to CHF 23.3 million, a 34% increase compared to the previous year. Profits from interest activities rose by CHF 0.9 million to CHF 4.5 million, an increase of 25%. Income from commission business and services grew 33% to CHF 14 million thanks to the increase in client assets under management. Income from financial transactions enjoyed an 18% increase, climbing to CHF 3.4 million on the back of good results from currency hedging transactions.

Operating expenses rose to CHF 16.3 million, an 18% increase compared to the previous year. This was due to the personnel expansion that came with continued investment in IT and the acquisition of Bank Vontobel (Liechtenstein) AG. Here there was a CHF 0.4 million increase in administrative expenses and a CHF 2.0 million increase in personnel expenses. Kaiser Partner Privatbank AG employed a total of 70 staff (63.9 full-time equivalents) as of the end of 2018.

Our bank's total assets stood at CHF 562 million at the end of the year, having grown by CHF 99 million (+21%) during the reporting period. On the assets side, claims due from banks and clients grew by CHF 52 million (+72%) and CHF 61 million (+226%), respectively. Liabilities due to clients grew by 25% from CHF 390 million to CHF 485 million.

### Solid equity base

The bank's equity capital as of December 31, 2018, had risen 5% to CHF 49.8 million. With a Tier 1 ratio of 20.2% before dividend distribution, Kaiser Partner Privatbank AG continues to be very solidly capitalized.



### **Fundamental principles of Kaiser Partner Privatbank AG**

- We focus on services and markets where we can achieve critical mass, ensuring that we have the necessary expertise.
- We work closely within our teams and seamlessly integrate external experts, creating added value for our clients.
- We invest in people, knowledge and systems, guaranteeing more quality, security and efficiency.
- We act responsibly towards all our stakeholders, aiming at creating long-lasting working relationships.

### **Our expertise for the U.S. market**

Asset managers that are registered with the U.S. Securities and Exchange Commission have special requirements and needs. Kaiser Partner Privatbank AG can offer them attractive solutions for responsibly investing the money of their U.S. clients.

We have a long-standing relationship with Kaiser Partner Financial Advisors AG, a Zurich-based company that has been successfully managing taxed assets for U.S. citizens since 2009.

### **A partner for external asset managers and funds**

As a custodian bank, Kaiser Partner Privatbank AG manages the portfolios of business partners such as external asset managers and international investment fund managers. Our experts focus on best-in-class products but do not offer their own products, in part to ensure the independence of their advisory services. Our work with our partners is increasingly being conducted through digital channels, which we will continue to develop together.

### **Outlook for 2019: Expect a slowdown, but not a recession**

We live in an increasingly interconnected and globalized world, with smartphones exposing us to a constant flood of information. This can make events seem more significant and high-stakes than they are in reality, which could mislead people – or people's investment behavior – into constantly vacillating between panic and euphoria. It is important to remember that fanning the flames of fear is one way for media outlets to enhance their stature and boost their ratings. In this environment, it is especially important to stay the course when it comes to long-term investment goals while still tailoring portfolios to ever-changing macroeconomic conditions. We consider the following factors to be particularly relevant to the economic climate in 2019: growth of the gross domestic product, political risks, and fiscal policy.

We expect another year of continued global economic growth, but the rate of growth will slow considerably. On a global level, the IMF predicted a growth rate of 3.5% in its January update, which is 0.2 percentage points below the forecast in its October update. While growth of 2.5% is still expected in the U.S., growth forecasts for the Eurozone have been reduced to 1.6%. Striking examples of the European slowdown include Germany, where industrial production is cooling significantly as a result of new vehicle emission standards, and Italy, which is facing uncertainty when it comes to fiscal policy. The European Central Bank takes a significantly more pessimistic view of the situation than the International Monetary Fund, having recently cut their Eurozone growth predictions down 0.6% to just 1.1%. Adding to this picture is ECB's relatively drastic change of course, decided on within a span of just three months: while the bank has extended its zero-interest policy until at least the end of the year, it has promised to continue offering subsidized credit to the banking industry. Other central banks have embarked on similar, albeit less drastic, changes of course when it comes to monetary policy. While this year may see the domination of downside risks in the face of Brexit and the U.S.-China trade conflict, over the past few months central banks seem to have become more of a tailwind than a headwind for the financial markets.

Compared to a few months ago, it now seems more likely again that the markets will be pumped with cheap liquidity. Just how fickle the mood on the markets can be was shown at the beginning of the year. After December 2018 saw one of the weakest performances in years, 2019 got off to a blazing start, with the first two months being the strongest in over half a century. All of these developments prove once again how quickly market conditions can change – and how important it is to constantly monitor developments and make dynamic decisions to ensure investment success. For the time being, we will structure our clients' portfolios based on a late-cycle macroeconomic scenario with more defensive stocks. However, we will continue to keep a critical eye on global developments so that we can quickly and systematically implement any changes that may become necessary.

Our bank will continue to invest in the future on our clients' behalf. Our Digital Onboarding initiative will be launched in the second semester 2019, providing a convenient online platform to set up even very complex structures from home or the workplace. Kaiser Partner Privatbank AG is committed to using the opportunities presented by digitalization to keep the focus on clients and their needs. Our institution is growing both organically and inorganically, and as a modern and reliable bank, we intend to stay on this growth path in 2019 for clients both old and new.



We would like to thank our clients and business partners for their loyalty and trust over the past business year. Great thanks are also owed to our employees, who are essential to ensuring the satisfaction of our clients. We look forward to continuing along our successful path together in 2019.

Vaduz, April 2019



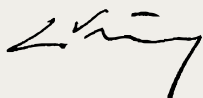
**Fritz Kaiser**

Chairman of the Board of Directors,  
Kaiser Partner Privatbank AG



**Christian Reich**

CEO  
Kaiser Partner Privatbank AG



**Christoph Kung**

Member of the Executive Board,  
Kaiser Partner Privatbank AG



**Hermann Neusüss**

Member of the Executive Board,  
Kaiser Partner Privatbank AG



**Franz Schädler**

Member of the Executive Board,  
Kaiser Partner Privatbank AG

# Balance Sheet of Kaiser Partner Privatbank AG

as of December 31, 2018 (in CHF 1,000)

Assets		
	12/31/2018	12/31/2017
Cash	58,731	62,768
Due from banks	122,771	71,249
<i>due on a daily basis</i>	60,976	36,999
<i>other claims</i>	61,795	34,250
Due from clients	87,608	26,858
<i>mortgage loans</i>	3,800	3,800
Debt securities and other fixed-income securities	248,913	257,553
<i>debt securities</i>	248,913	257,553
<i>public-sector issuers</i>	45,075	56,086
<i>other issuers</i>	203,837	201,467
Shares and other non-fixed-interest securities	3	3
Shares in associated companies	0	0
Intangible assets	6,800	5,099
Fixed assets	28,813	29,472
Other assets	2,595	4,148
Accrued income and pre-paid expenses	5,637	5,878
<b>Total assets</b>	<b>561,871</b>	<b>463,029</b>

## Liabilities

	12/31/2018	12/31/2017
Due to banks	21,306	20,676
<i>due on a daily basis</i>	20,853	15,833
<i>other liabilities</i>	453	4,843
Due to clients	485,492	389,809
<i>other liabilities</i>	485,492	389,809
<i>due on a daily basis</i>	415,903	325,548
<i>with agreed maturity or period of notice</i>	69,589	64,261
Other liabilities	3,197	3,794
Accrued expenses and deferred income	1,711	1,159
Provisions	361	296
<i>provisions for taxes</i>	342	277
<i>other provisions</i>	18	18
Provisions for general banking risks	500	500
Subscribed capital	10,000	10,000
Retained earnings	33,843	33,843
<i>legal reserves</i>	2,000	2,000
<i>other reserves</i>	31,843	31,843
Profit brought forward	952	689
Profit for the year	4,510	2,263
<b>Total liabilities</b>	<b>561,871</b>	<b>463,029</b>

# Off-Balance Sheet Transactions

as of December 31, 2018 (in CHF 1,000)

Off-balance sheet transactions		
	12/31/2018	12/31/2017
Contingent liabilities	18,268	4,995
<i>of which liabilities from guarantees and indemnity agreements and from assets pledged as collateral security</i>	18,268	4,995
Derivative financial instruments		
<i>contract volume</i>	349,979	327,813
<i>positive replacement values</i>	1,855	2,783
<i>negative replacement values</i>	2,005	3,218
Fiduciary transactions	67,650	24,715
<i>fiduciary deposits with other banks</i>	67,650	24,715

# Distribution of Balance Sheet Profit

(in CHF 1,000)

The Board of Directors will propose to the General Meeting that the balance sheet profit as of December 31, 2018, be appropriated as follows:

<b>Distribution of balance sheet profit</b>		
	12/31/2018	12/31/2017
Profit for the year	4,510	2,263
Profit brought forward	952	689
<b>Balance sheet profit</b>	<b>5,462</b>	<b>2,952</b>
Distribution of balance sheet profit		
<i>allocation to legal reserves</i>	0	0
<i>allocation to other reserves</i>	0	0
<i>payment of dividend</i>	2,500	2,000
<b>Profit brought forward</b>	<b>2,962</b>	<b>952</b>

# Income Statement

from January 1 to December 31, 2018 (in CHF 1,000)

Income statement		
	2018	2017
<b>Income from interest activities</b>		
Interest income	7,904	7,022
<i>of which from fixed-income securities</i>	5,125	5,112
Interest expenses	-3,398	-3,413
<b>Subtotal from interest activities</b>	<b>4,506</b>	<b>3,608</b>
<b>Current income from securities</b>		
Equities and other non-fixed-interest securities	0	0
Shares in associated companies	0	0
<b>Subtotal income from securities</b>	<b>0</b>	<b>0</b>
<b>Income from commission and service fee activities</b>		
Income from commission and service fee activities	15,206	11,245
<i>credit-related commissions and fees</i>	76	27
<i>commissions from securities and investment transactions</i>	13,711	10,754
<i>other commission and fee income</i>	1,419	464
Commission and fee expenses	-1,184	-724
<b>Subtotal income from commission and service fee activities</b>	<b>14,022</b>	<b>10,521</b>
<b>Income from financial transactions</b>		
Income from financial transactions	3,400	2,890
<i>of which from trading business</i>	3,398	2,851
<b>Subtotal income from financial transactions</b>	<b>3,400</b>	<b>2,890</b>
<b>Other ordinary income</b>		
Other ordinary income	1,340	399
<b>Subtotal other ordinary income</b>	<b>1,340</b>	<b>399</b>
<b>Gross income</b>	<b>23,267</b>	<b>17,418</b>
<b>Operating expenses</b>		
Personnel expenses	-7,974	-5,941
<i>wages and salaries</i>	-5,788	-4,460
<i>social benefits and pension scheme contributions</i>	-1,430	-910
<i>of which pension scheme contributions</i>	-1,095	-688
<i>other personnel expenses</i>	-757	-570
Administrative expenses	-8,347	-7,905
<b>Subtotal operating expenses</b>	<b>-16,321</b>	<b>-13,846</b>
Depreciation on intangible assets and fixed assets	-1,969	-982
Other ordinary expenses	-156	-74
Value adjustments on claims, provisions for contingent liabilities and credit risks	0	0
<b>Results from ordinary activities</b>	<b>4,821</b>	<b>2,516</b>
Income taxes	-311	-253
<b>Profit for the year</b>	<b>4,510</b>	<b>2,263</b>

# Cash Flow Statement

from January 1 to December 31, 2018 (in CHF 1,000)

	2018		2017	
	Source of funds	Use of funds	Source of funds	Use of funds
<b>Cash flow from operating results (internal financing)</b>				
Profit for the year	4,510		2,263	
Depreciation on fixed assets	1,969		982	
Value adjustments and provisions	65			17
Accrued income and prepaid expenses	241		1,167	
Accrued expenses and deferred income	552		183	
Dividend previous year		2,000		2,000
<b>Net cash flow from operating results (internal financing)</b>	<b>5,337</b>		<b>2,578</b>	
<b>Cash flow from equity transactions</b>				
<b>Net cash flow from equity transactions</b>		<b>0</b>		<b>0</b>
<b>Cash flow from investment activities</b>				
Shares and other non-fixed-interest securities	8,641		4,016	
Fixed assets		180		24,700
Intangible assets		2,831		910
Equity investments				
<b>Net cash flow from investment activities</b>	<b>5,630</b>			<b>21,594</b>
<b>Cash flow from banking business</b>				
<b>Short-term banking business (≤ 1 year)</b>				
Due to banks	630			5,445
Due to clients	95,682			115,949
Other liabilities		597		218
Due from banks		51,522	140,590	
Due from clients		60,750	1,946	
Other assets	1,553			82
<b>Liquidity</b>				
Cash	4,037			1,825
<b>Net cash flow from banking business</b>		<b>10,967</b>	<b>19,016</b>	

# Notes on Business Activities

Kaiser Partner Privatbank AG focuses on private banking for a sophisticated international clientele, mainly from the United Kingdom, Switzerland, Eastern Europe and Russia.

## **Personnel**

Kaiser Partner Privatbank AG employed a total of 70 staff, or 63.9 full-time equivalents, as of December 31, 2018 (previous year: 39 staff, or 37.2 full-time equivalents).

## **Commission business and services**

The principal activities of the bank are asset management and investment consulting. Consequently, the largest share of income from commission business and services is generated by commissions related to securities trading for clients. Other significant earnings components are securities management (including investment funds) and the arrangement of fiduciary investments.

## **Lending**

Generally, loans are only granted in connection with asset management and investment transactions against Lombard collateral and at margins that are customary in banking. Other lending commitments are offered in exceptional cases only.

## **Outsourcing**

Kaiser Partner Privatbank AG uses an extensive range of services provided by Avaloq Sourcing within a BPO arrangement. All payment transactions and securities administration are processed through Avaloq Sourcing. Kaiser Partner Privatbank AG is responsible for monitoring and supervision.



# Accounting and Valuation Principles

## Legal basis

Accounting, valuation and reporting principles are in compliance with the provisions of the Liechtenstein Persons and Companies Law (PGR), the Liechtenstein Banking Act and the related Banking Ordinance. The annual financial statements provide a true and fair view of the net assets, financial position and earnings situation of Kaiser Partner Privatbank AG.

## Reporting of transactions

All completed transactions are reported on the balance sheet and in the income statement in accordance with the defined valuation principles. Transactions are recognized and booked as of the date of completion.

## Foreign currencies

Receivables and obligations in foreign currencies are valued at the average exchange rate in effect on the balance sheet date. The rate applying on the day of the transaction is used for income and expenses. Exchange gains or losses resulting from the valuation are recognized in the income statement.

The following exchange rates were used for foreign currency translations:

	12/31/2018	12/31/2017
USD	0.982800	0.973700
EUR	1.125404	1.170533
GBP	1.252480	1.316783

## Cash, receivables, liabilities due to banks and to clients and securitized debt

Cash, receivables, liabilities due to banks and to clients, and securitized debt are reported at nominal values. Allowances have been established for identifiable risks in accordance with the precautionary principle.

Impaired assets, i.e. receivables for which debtors are unlikely to be able to meet future obligations, are individually valued and impairments are covered by specific value adjustments.

Off-balance sheet transactions, such as firm commitments, guarantees and derivative financial instruments, are also included in this valuation. Loans are classified as doubtful no later than when the contractually stipulated repayments of principal and/or interest payments have been outstanding for more than 90 days. Interest payments outstanding for more than 90 days are considered overdue. Loans are placed on a non-accrual basis if the collection of the interest is sufficiently doubtful to make accrual no longer practical.

Impairments are calculated based on the difference between the book value of the receivable and the expected collectible amount, accounting for the counterparty risk and the net proceeds from the sale of any collateral. Specific value adjustments are netted directly against the corresponding asset items.

## Debt securities and other fixed-interest securities, shares and other non-fixed-interest securities

Fixed-interest securities that are to be held to maturity are valued using the accrual method. Any premium or discount is apportioned over the term of the security until maturity. Realized interest-related profits or losses from early disposal or repayment are apportioned over the remaining term, i.e. until the original maturity. Interest income is credited to "Interest income." Equities and fixed-interest securities that are not held to maturity are valued at the lower of cost or market. Interest income is credited to "Interest income" while dividends received are reported under "Current income from securities". Value adjustments are recognized in "Depreciation (or income from write-ups) on equity investments", "Shares in associated companies" and "Securities held as fixed assets".

### **Fixed assets, tangible and intangible assets**

Other fixed assets and intangible assets are fully depreciated over their estimated useful life (three to thirteen years) based on operational criteria. Leased property is depreciated over the period indicated in the contract. Real estate is depreciated over a period of 50 years. Impairment is reviewed annually. If the impairment test results in a change in useful life or a decrease in value, the residual book value is depreciated over the remaining useful life, or an unscheduled depreciation is made.

An impairment test is applied to tangible assets at each balance sheet date. If there is evidence of impairment, the recoverable amount is calculated. If the book value exceeds the recoverable amount, an adjustment is made on the income statement by means of an unscheduled depreciation.

### **Value adjustments and provisions**

Specific value adjustments and provisions are established for all identifiable risks as of the balance sheet date in accordance with the precautionary principle. Value adjustments are offset directly against the corresponding asset items. Provisions for taxes include accruals for taxes based on the result of the year under review.

### **Provisions for general banking risks**

Provisions for general banking risks are precautionary reserves established to cover latent risks in the operating activities of the bank. The formation and reversal of provisions for general banking risks are recognized separately in the income statement.

### **Off-balance sheet transactions**

Off-balance sheet transactions are reported at their nominal values. Identifiable risks arising from contingent liabilities and other off-balance sheet transactions are taken into account by establishing provisions.

### **Derivative financial instruments**

The gross replacement values of individual contracts for derivative financial instruments – positive and negative replacement values are not offset – are reported on the balance sheet and in the notes. The compensation account is shown in the balance sheet. Income-relevant adjustments are recognized in the income statement. All replacement values of contracts concluded for the bank's own account are reported. The replacement values for client transactions, however, are reported only for OTC contracts and exchange-traded products if the margins are insufficient. Contract volumes and replacement values are reflected under "Off-Balance Sheet Transactions" and in the notes.

### **Changes in accounting and valuation principles**

The accounting and valuation principles remain unchanged from the prior year.

For comparison purposes, a change was made to the balance sheet of the previous year: Receivables due from banks in the amount of TCHF 2,809 were reclassified as receivables due from clients.

# Risk Management

The risk policy defines the fundamental aspects of the Risk Management system of Kaiser Partner Privatbank AG. The risk policy forms an integral component of the general business policy.

## It pursues the following objectives:

- a balanced, qualitative and quantitative definition of risk-bearing capacity and risk appetite.
- creating a risk culture to promote risk-relevant controls and effective, efficient reporting.
- ensuring a Risk Management system for Kaiser Partner Privatbank AG with clearly defined roles, responsibilities, rights and obligations.
- defining a consistent Risk Management process, in particular to identify, measure/assess, control/limit and monitor all risks and mitigate them through appropriate measures.
- regulating a reporting system that enables the bank's managing bodies to obtain a comprehensive view of the general risk situation and to fulfill their supervisory duties.

Risk Management is based, legally and operationally, on the Liechtenstein Banking Act and Banking Ordinance, the risk management guidelines in accordance with the Appendix to the Banking Ordinance, as well as the bank's own articles of incorporation, bylaws, internal rules and directives. Risk Management is responsible for the areas of strategic risks, credit risks, market risks, liquidity risks and operational risks. The legal department of Kaiser Partner Privatbank AG is tasked with limiting and managing legal risks. External legal advisors may be used on a case-by-case basis. The Compliance unit ensures that the statutory and regulatory guidelines relating to money laundering, duties of due diligence and securities law are observed.

## Counterparty risks

As a basic principle, the bank only invests with first-class counterparties. Limits and daily monitoring are in place to minimize risk. Risk Management regularly reviews the creditworthiness of counterparties.

## Country risks

Since, as a matter of principle, Kaiser Partner Privatbank AG only grants secured loans to borrowers domiciled in OECD countries or Liechtenstein, the potential risk can be rated as low. Security is provided based on cautiously defined Lombard rates.

The same criteria used to select potential counterparties as set out in "Counterparty Risks" are used to assess country risks in interbank transactions.

## Trading and use of derivative financial instruments

Since Kaiser Partner Privatbank AG does not run a trading book, proprietary trading is only conducted on a very small scale for foreign exchange business. Derivative financial instruments are only used in the context of client business or for hedging purposes. The bank trades both standardized and OTC derivatives. The counterparties are first-class Swiss and Liechtenstein banks.

## Market risks

The risks in the bankbook primarily relate to interest rate, currency and price risks. Interest rate risks are controlled through strict rules on permitted duration gaps. Interest rate swaps are concluded for larger duration gaps. The risks are monitored using sensitivity limits. Interest rate sensitivity measures the effect that a 100 basis point change in interest rates would have on cash value and income for the bank. In addition, interest rate risks are monitored through active management of the balance sheet structure. To avoid currency risks, investments are normally made in matching currencies. Owing to the "held to maturity" approach, price risk is of secondary importance.

## Liquidity risks

The bank pursues a moderate investment strategy focused on continuous availability of the necessary liquidity. Liquidity risks are monitored and controlled based on the provisions of the Banking Act.

## Personnel risks / remuneration policy

Kaiser Partner Privatbank AG takes great care to avoid disproportionately high risks when recruiting new employees. Priority is given to professional expertise, moral integrity and values that match those of the bank. The remuneration policy is based on non-performance-related fixed remuneration with no variable components. However, an employee dividend based on the performance of Kaiser Partner Privatbank AG may be paid out by an associated company set up for this purpose..

# Notes on the Balance Sheet

(in CHF 1,000)

## Overview of loan collateral and off-balance sheet transactions

Loans		Type of collateral			Total
		Secured by mortgage	Other collateral	Unsecured	
Due from clients		3,800	83,721	87	87,608
<b>Total loans</b>	<b>12/31/2018</b>	<b>3,800</b>	<b>83,721</b>	<b>87</b>	<b>87,608</b>
	12/31/2017	3,800	22,959	99	26,858
<b>Off-balance sheet transactions</b>					
Contingent liabilities		0	18,268	0	18,268
<b>Total off-balance sheet transactions</b>	<b>12/31/2018</b>	<b>0</b>	<b>18,268</b>	<b>0</b>	<b>18,268</b>
	12/31/2017	0	4,995	0	4,995
<b>Doubtful receivables</b>					
		Gross debt	Estimated proceeds from sale of collateral	Net debt	Individual value adjustments
	<b>12/31/2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	12/31/2017	0	0	0	0



### Pledged or assigned assets as well as assets under reservation of ownership, security lendings and repurchase agreements

	12/31/2018	12/31/2017
Book value of pledged or assigned (transferred as collateral) assets	53,213	11,820
Actual liabilities	0	0
Security lendings or repurchase agreements	0	0

### Liabilities towards own pension funds

Kaiser Partner Privatbank AG does not have its own pension fund.

### Value adjustments and provisions / provisions for general banking risks

	As of 12/31/2017	Specific use	Recoveries, overdue interest, exchange differences	New provisions charged to income statement	Reversal of provisions charged to income statement	As of 12/31/2018
Value adjustments for loan default risks						
<i>specific value adjustments</i>	0	0	0	0	0	0
Other provisions	18	0	0	0	0	18
Provisions for tax and deferred tax	277	-249	0	314	0	342
<b>Total value adjustments and provisions</b>	<b>296</b>	<b>-249</b>	<b>0</b>	<b>314</b>	<b>0</b>	<b>361</b>
<i>less value adjustments</i>	0	0	0	0	0	0
<b>Total provisions according to balance sheet</b>	<b>296</b>	<b>-249</b>	<b>0</b>	<b>314</b>	<b>0</b>	<b>361</b>
<b>Provisions for general banking risks</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>500</b>

<b>Company capital</b>						
	12/31/2018			12/31/2017		
	Total par value	Number of shares	Capital ranking for dividends	Total par value	Number of shares	Capital ranking for dividends
<b>Company capital</b>						
Share capital	10,000	10,000	10,000	10,000	10,000	10,000
<b>Total company capital</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

<b>Significant shareholders</b>				
	12/31/2018		12/31/2017	
	Nominal	Share in %	Nominal	Share in %
<b>With voting rights</b>				
KBB Holding AG, Vaduz	10,000	100.00		
KBB Stiftung, Vaduz			10,000	100.00

KBB Holding AG is a wholly owned subsidiary of KBB Stiftung.

<b>Statement of shareholders' equity</b>	
<b>Shareholders' equity at beginning of business year</b>	
Share capital paid in	10,000
Legal reserves	2,000
Other reserves	31,843
Provisions for general banking risks	500
Retained earnings	2,952
<b>Total shareholders' equity at beginning of business year (before distribution of profit)</b>	<b>47,295</b>
- dividend paid out of prior year's profit	2,000
+ profit for the year	4,510
<b>Total shareholders' equity at end of business year (before distribution of profit)</b>	<b>49,805</b>
<i>of which paid-in subscribed capital</i>	<i>10,000</i>
<i>legal reserves</i>	<i>2,000</i>
<i>other reserves</i>	<i>31,843</i>
<i>provisions for general banking risks</i>	<i>500</i>
<i>balance sheet profit</i>	<i>5,462</i>

## Maturity structure of assets, liabilities and provisions

		Due						Total
		Sight deposits	Callable	within 3 months	between 3 and 12 months	between 12 months and 5 years	after 5 years	
<b>Assets</b>								
Cash		58,731						58,731
Due from banks		60,976	48,598	1,720	6,477	5,000		122,771
Due from clients		9,883	247	30,892	25,278	21,308		87,608
<i>mortgage loans</i>						3,800		3,800
Other assets		904		23,657	59,697	172,889	35,613	292,761
<b>Total assets</b>	<b>12/31/2018</b>	<b>130,494</b>	<b>48,845</b>	<b>56,269</b>	<b>91,452</b>	<b>199,197</b>	<b>0</b>	<b>561,871</b>
	12/31/2017	129,609	274	51,736	70,028	176,810	0	463,029
<b>Liabilities and provisions</b>								
Due to banks		20,919		387				21,306
Due to clients		460,030		23,137	2,324			485,492
<i>other liabilities</i>		460,030		23,137	2,324			485,492
Provisions (excl. provisions for general banking risks)					360			360
Other liabilities		2,694		1,100	399	715		4,908
<b>Total liabilities</b>	<b>12/31/2018</b>	<b>483,643</b>	<b>0</b>	<b>24,624</b>	<b>3,084</b>	<b>715</b>	<b>0</b>	<b>512,066</b>
	12/31/2017	385,483	0	20,081	9,378	792	0	415,734

## Due to and from associated companies, significant shareholders and members of the governing bodies and material transactions with affiliated parties

	12/31/2018	12/31/2017
Due from associated companies (included in "Due from clients")	0	0
Due from significant shareholders (included in "Due from clients")	0	0
Due to associated companies (included in "Due to clients")	467	0
Due to significant shareholders (included in "Due to clients")	1,978	880
Loans to members of the bank's governing bodies	0	0

Transactions (e.g. securities transactions, payment transactions, loans and returns on deposits) with affiliated parties are carried out on the same terms as used for third parties. There were no significant transactions with affiliated parties during the reporting year.



## Balance sheet by currency

	Currency				Total
	CHF	USD	EUR	Other	
<b>Assets</b>					
Cash	53,375	89	5,207	61	58,731
Due from banks	16,051	65,822	24,152	16,746	122,771
Due from clients	25,210	40,147	7,027	15,224	87,608
<i>mortgage loans</i>	3,800				3,800
Shares and other non-interest-bearing securities	1	2			3
Debt securities and other fixed-income securities	28,045	116,448	97,531	6,889	248,913
Shares in associated companies	0				0
Intangible assets	6,800				6,800
Fixed assets	28,813				28,813
Other assets	2,591	4			2,595
Accrued income and pre-paid expenses	1,109	1,388	2,891	249	5,637
<b>Total on-balance sheet assets</b>	<b>161,995</b>	<b>223,901</b>	<b>136,808</b>	<b>39,168</b>	<b>561,871</b>
Delivery claims from spot, forward and option foreign exchange transactions	96,011	144,573	89,814	19,580	349,979
<b>Total assets</b>	<b>258,006</b>	<b>368,473</b>	<b>226,623</b>	<b>58,749</b>	<b>911,850</b>
<b>Liabilities</b>					
Due to banks	163	6,023	14,448	672	21,306
Due to clients	96,042	217,689	133,185	38,576	485,492
Other liabilities	3,135	24	38	1	3,197
Accrued expenses and deferred income	1,344	340	18	9	1,711
Provisions	342				342
Other provisions	18				18
Provisions for general banking risks	500				500
Subscribed capital	10,000				10,000
Retained earnings	33,843				33,843
Profit brought forward	952				952
Profit for the year	4,510				4,510
<b>Total on-balance sheet liabilities</b>	<b>150,850</b>	<b>224,076</b>	<b>147,689</b>	<b>39,257</b>	<b>561,871</b>
Delivery commitments from spot, forward and option foreign exchange transactions	104,698	144,413	80,691	19,672	349,474
<b>Total liabilities</b>	<b>255,548</b>	<b>368,489</b>	<b>228,381</b>	<b>58,928</b>	<b>911,346</b>
<b>Net position per currency</b>	<b>2,458</b>	<b>-16</b>	<b>-1,758</b>	<b>-180</b>	

**Other assets and other liabilities**

	12/31/2018	12/31/2017
<b>Balance sheet items</b>		
Positive replacement values	1,855	2,783
Compensation account	414	639
Input tax	56	118
Accounts receivable	270	608
Settlement accounts	0	0
<b>Total other assets</b>	<b>2,595</b>	<b>4,148</b>
Negative replacement values	2,005	3,218
Compensation account	0	0
Accounts payable	739	482
Settlement accounts	453	94
<b>Total other liabilities</b>	<b>3,197</b>	<b>3,794</b>

## Acquisition

Kaiser Partner Privatbank AG is pursuing a strategy of growth through acquisition. Following regulatory approval by the Liechtenstein Financial Market Authority (FMA), Kaiser Partner Privatbank AG (domiciled in Vaduz) acquired 100% of the shares of Bank Vontobel (Liechtenstein) AG (domiciled in Vaduz) on February 22, 2018. With this move, Bank Vontobel (Liechtenstein) AG became a wholly owned subsidiary of Kaiser Partner Privatbank AG. The full legal merger of the two banks took place on March 29, 2018.

The following assets and liabilities were taken over in the acquisition:

(in CHF 1,000)	
Cash	51,633
Due from banks	90,214
Due from clients	25,505
Debt securities and other fixed-income securities	7,397
Intangible assets	173
Fixed assets	8
Other assets	1,512
Accrued income and pre-paid expenses	815
<b>Total assets</b>	<b>177,257</b>
Due to banks	17,276
Due to clients	134,706
Other liabilities	1,589
Accrued expenses and deferred income	1,165
Provisions	2
<b>Total debt capital</b>	<b>154,738</b>
<b>Total net assets</b>	<b>22,519</b>
<b>Acquired net assets</b>	<b>22,519</b>

Bank Vontobel (Liechtenstein) AG was fully integrated into Kaiser Partner Privatbank AG on March 29, 2018, a move that brought about profits of around TCHF 917. The expenses and income generated by the acquired net assets of the bank formerly known as Bank Vontobel (Liechtenstein) AG, have been accounted for in the 2018 annual report of Kaiser Partner Privatbank AG since March 29, 2018.

# Notes on Off-Balance Sheet Transactions

(in CHF 1,000)

Breakdown of contingent liabilities		
	12/31/2018	12/31/2017
Credit guarantees	5,491	4,995
Other contingent liabilities	12,776	0
<b>Total</b>	<b>18,268</b>	<b>4,995</b>

Open derivative financial instruments							
		Trading instruments			Hedging instruments		
		Positive replacement values	Negative replacement values	Contract volume	Positive replacement values	Negative replacement values	Contract volume
<b>Foreign currencies</b>							
Foreign exchange forwards		1,854	1,590	336,579			
Currency swaps							
<b>Interest rate instruments</b>							
Interest rate swaps					1	415	13,400
<b>Total before netting agreements</b>	<b>12/31/2018</b>	<b>1,854</b>	<b>1,590</b>	<b>336,579</b>	<b>1</b>	<b>415</b>	<b>13,400</b>
	12/31/2017	2,783	2,579	312,413	0	639	15,400
		Positive replacement values (cumulative)			Negative replacement values (cumulative)		
<b>Total after netting agreements</b>	<b>12/31/2018</b>			<b>1,855</b>			<b>2,005</b>
	12/31/2017			2,783			3,218

Fiduciary transactions							
		Currencies, translated into CHF					Total in CHF 1,000
		CHF	USD	GBP	EUR	Other	
Fiduciary deposits with other banks		0	65,967	1,221	0	462	67,650
<b>Total</b>	<b>12/31/2018</b>	<b>0</b>	<b>65,967</b>	<b>1,221</b>	<b>0</b>	<b>462</b>	<b>67,650</b>
	12/31/2017	0	22,193	597	0	1,926	24,715

Client assets under management		
	12/31/2018 in CHF million	12/31/2017 in CHF million
<b>Type of client assets</b>		
Discretionary client assets	1,463	799
Other client assets	2,564	1,875
<b>Total client assets (incl. double counts)</b>	<b>4,026</b>	<b>2,674</b>
of which double counts	138	36
Net new money inflow/outflow	-8	4

Client assets in the amount of CHF 1.4 billion were acquired upon the total integration of Bank Vontobel (Liechtenstein) AG into Kaiser Partner Privatbank AG on March 29, 2018.

# Notes on the Income Statement

(in CHF 1,000)

Income from trading operations		
	2018	2017
<b>Income from trading operations</b>		
Precious metals	0	0
Foreign exchange, foreign notes and coins	3,398	2,851
<b>Total trading income</b>	<b>3,398</b>	<b>2,851</b>

Breakdown of personnel expenses		
	2018	2017
<b>Personnel expenses</b>		
Wages and salaries <sup>1)</sup>	5,788	4,460
Social benefits and pension scheme contributions	1,430	910
<i>of which pension scheme contributions</i>	1,095	688
Other personnel expenses	757	570
<b>Total personnel expenses</b>	<b>7,974</b>	<b>5,941</b>
Payments to members of the Board of Directors	26	19
Payments to members of the Executive Board	981	595

<sup>1)</sup> Including accrued vacation.

Breakdown of administrative expenses		
	2018	2017
<b>Administrative expenses</b>		
Occupancy expenses	564	1,454
Expenses for IT, machinery, furniture, vehicles and other equipment	4,494	3,810
Other administrative expenses	3,289	2,641
<b>Total administrative expenses</b>	<b>8,347</b>	<b>7,905</b>

# Disclosure as per Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR)

(in CHF 1,000)

Statement of eligible capital		
	12/31/2018	12/31/2017
Core capital (prior to adjustment)	47,305	45,295
<i>of which minority interests</i>		
<i>of which "innovative" instruments</i>		
– <i>surplus of losses anticipated from application of the IRB approach less the value adjustments established (article 21 [1] d)</i>		
– <i>net long position in own equities</i>		
– <i>other elements to be deducted from core capital</i>	-6,800	-5,099
= <i>eligible core capital (adjusted core capital)</i>	40,505	40,196
+ <i>upper supplementary capital</i>		
+ <i>lower supplementary capital</i>		
+ <i>additional capital</i>		
– <i>other deductions from supplementary capital, additional capital and total capital</i>		
<b>= Eligible capital</b>	<b>40,505</b>	<b>40,196</b>

Statement of required capital		
	Method used	12/31/2018 Equity requirement
Credit risk	Standard approach	13,097
<i>of which price risk relating to equities in the bank book</i>		
Non-counterparty-related risks		55
Market risk	Standard approach	85
<i>of which on interest rate instruments (general and specific market risk)</i>		
<i>of which on equities</i>		
<i>of which on foreign exchange and precious metals</i>		85
<i>of which on commodities</i>		
<i>of which for settlement and delivery risks</i>		
Operational risk	Basic indicator approach	2,831
Additional capital		
<b>Total minimum capital</b>		<b>16,069</b>
Capital conservation buffer		5,022
<b>Total regulatory required capital</b>		<b>21,090</b>
Ratio of eligible/required capital:		1.92
Equity ratios		
Hard core capital ratio		20.2%
Core capital ratio		20.2%

Further details can be found on our website [www.kaiserspartner.bank](http://www.kaiserspartner.bank).

To the General Meeting of  
Kaiser Partner Privatbank AG, Vaduz

Zurich, 16 April 2019

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accounting records, the accompanying financial statements (balance sheet, income statement, cash flow statement and notes; pages 10 to 12 and pages 14 to 29), and the accompanying annual report (pages 4 to 9) of Kaiser Partner Privatbank AG for the year ended 31 December 2018.



### Board of Directors' responsibility

These financial statements and the annual report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.



### Auditor's responsibility

Our audit was conducted in accordance with auditing standards promulgated by the Liechtenstein profession, which require that an audit be planned and performed to obtain reasonable assurance that the financial statements and annual report are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.



### Opinion

In our opinion, the financial statements give a true and fair view of the financial position, the result of operations and the cash flows in accordance with Liechtenstein law. Furthermore, the accounting records, the financial statements and the annual report as well as the proposed appropriation of available earnings comply with Liechtenstein law and the Company's articles of incorporation.



### Report on other legal requirements

The annual report corresponds to the annual financial statements and contains no significant incorrect information according to our assessment.

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

Ernst & Young Ltd



Stefan Fuchs  
(Qualified  
Signature)

Certified Accountant  
(Auditor in charge)



Jon Janett  
(Qualified  
Signature)

Certified Accountant

# Board of Directors, Executive Board, Investment Partners, Executives and Auditors

as of February 1, 2019

<b>Board of Directors</b>	Fritz Kaiser, FL Vaduz (Chairman) Otmar Hasler, FL Gamprin-Bendern (Member) Philip Marcovici, Hong Kong (Member)
<b>Executive Board</b>	Christian Reich, CH Speicher / AR (CEO) Christoph Küng, CH Erlenbach / ZH (Member) Hermann Neusüss, FL Triesenberg (Member) Franz Schädler, FL Schaan (Member)
<b>Vice Directors</b>	Daniela Tschirky, CH Wangs / SG Damien Wyss, CH Näfels / GL Adrian Schneider, FL Triesen Marcel Spalinger, CH Schindellegi / SZ Stefan Lampert, AT Altach Roger Künzle, CH Andwil / SG Michael Frei, CH Au / SG
<b>Procura Holders</b>	Reinhard Matt, FL Schaan Rainer Nachbauer, AT Hohenems My Linh Dao, AT Mäder Thomas Knöpfel, FL Triesen Urs Bochsler, CH Sevelen / SG Rolf Peyer, CH Stäfa / ZH Anel Hamzic, FL Eschen Loredana Ospelt-Buonanno, FL Vaduz
<b>Internal Audit</b>	Grant Thornton Bankrevision AG, CH Zürich / ZH
<b>Statutory Audit</b>	Ernst & Young AG, CH Zürich / ZH
<b>Members of</b>	Liechtenstein Bankers Association Swiss Bankers Association





Cautionary Statement Regarding Forward-Looking Statements: This annual report contains forward-looking statements. These statements are subject to general and specific risks and uncertainties.

It is possible that forecasts and results described or implied will not occur or will differ considerably from the mentioned expectations and intentions.

Please consider these uncertainties when evaluating forward-looking statements.

This report appears in German and English.  
The German version is binding.

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