PKB PRIVATBANK AG

2009

Annual Report 52nd Year of Activity

Board of Directors	Patry Jean[1) 3)]	Veyrier (GE)	*Chairman*
	Jesi Ferrari Maurizio[1) 2)]	Lugano (TI)	*Vice-Chairman*
	Zari Malacrida Fernando[1) 3)]	Gentilino (TI)	*Vice-Chairman*
	Delcò Edio	Taverne - Torricella (TI)	
	Fontana Benedetto[3)]	Prato Leventina (TI)	
	Hauser Dieter[2) 3)]	Zumikon (ZH)	
	Rochat Jean-Philippe[2) 3)]	Épalinges (VD)	
	Spadafora Giuseppe	Milano (I)	
	Trabaldo Togna Massimo	Milano (I)	
	Tronconi Augusto[3)]	Lugano (TI)	
Secretary	Corti Emilio	Cadro (TI)	
Internal Audit	Treichler Sandro		*First Internal Auditor*
	Pecorone Diego		*Internal Auditor*
Statutory Auditors **Group Auditors**	Ernst & Young SA		
Executive Board	Trabaldo Togna Umberto		*Chief Executive Officer*
	Coda Nunziante Ferdinando		*Managing Director*
	Soncini Luca		*Managing Director*
	Borsetti Giovanni		*Executive Vice President*
	Tonella Enrico		*Executive Vice President*

1) Members of the Executive Committee
2) Members of the Audit Committee
3) Indipendent directors under the FINMA circular 08/24

Members of the General Management

Senior Vice Presidents	Bernasconi Florio Berti Roberto Bianchi Ermanno Croce Pierluigi Dolfi Francesco Graves Anthony Jaquet Raffaella Nocchi Stefano Pasqualini Luciano Parmeggiani Luca Rodriguez Luigi
First Vice Presidents	Algisi Roberto Amann Calamida Sabine Arnold Felix Benz Christoph Brugger Elisabeth Bonacina Paolo Ceribelli Lucio Fumagalli Vittorio Grassi René Luchetti Andrea Nesti Vasco Pisciotta Antonino Rickenbach Giovanni Sanchez Antonio Spannagel Rolf Talleri Marco
Vice Presidents	Compagnoni Giorgio Dosi Delfini Nicolò Duarte Villela Heitor Kundert Hans Maltese Stefano Marchesi Mauro Marcotullio Stefano Pedrotti Roberto Petrucci Pierluigi Porter Nicholas Radaelli Luca Reichlin Carlo Ricci Renzo Rossi-Pedruzzi Guido Sala Mario Scarmignan Michele Vincentelli Sergio
Bellinzona Branch Manager *Senior Vice President*	Simoni Dario
Geneva Branch Manager *Senior Vice President*	Caracciolo di Vietri Gennaro
Zurich Branch Manager *Senior Vice President*	Kaufmann René
Subsidiary Manager **PKB Privatbank Ltd – Antigua** *First Vice President in Charge*	Lema Norberto

Ambrogio di Stefano da Fossano, also known as il Bergognone
(Milan, circa 1452 - 1523)

Madonna with Sleeping Child (“Madonna of the Veil”)

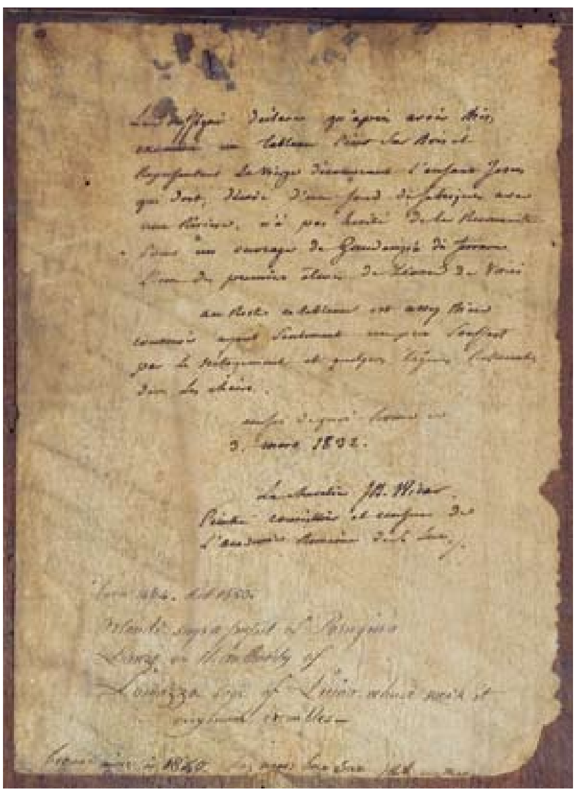
Tempera and oil on wood,
63 x 40 cm

Jean-Baptiste Wicar (Lille 1762–Roma 1834) – a pupil of Jean-Louis David, in whose train he went for the first time to Rome in 1784 – was a painter, illustrator and one of the people responsible for selecting the works of art to be sent to Paris from the Italian territories occupied by the French army. This role put him in a position of power in the eyes of collectors and antiquarians, allowing him to build a gigantic collection of ancient drawings. This collection was repeatedly dispersed and reconstituted, and was eventually left to his city of birth (the Wicar legacy formed the foundations for the Musée des Beaux-Arts of Lille). Progressively marginalised by institutions, around 1800, Wicar began to work for himself, expanding his collection and accumulating wealth as a merchant and art expert (G.Previtali, *La fortuna dei primitivi. Dal Vasari ai neoclassici*, Turin 1964, pp. 233-234; M.T.Caracciolo, *Da Lille a Roma : Jean Baptiste Wicar e l’Italia*, exhibition catalogue, Perugia, Accademia di Belle Arti, 2002). The note attached to the back of this painting provides strong evidence of Wicar’s activity as an appraiser. In a letter dated 3 March 1832, the French painter renders an expert opinion on the state of the painting (*“ce tableau est assez bien conservé, ayant seulement un peu souffert par le netoyement et quelques légères retouches dans les chairs”*) and attributes the work to Gaudenzio Ferrari, *“l’un des premiers élèves de Léonard de Vinci”*. This mistaken attribution is worthy of note, because the name of Gaudenzio Ferrari calls to mind the Lombardy region and evokes Leonardo’s teaching – and in Wicar’s letter it is intended also to promote the painting – taking into account the particular gentleness of the profile and the shade on the Virgin’s face. Thus, the painting reached England under Ferrari’s name in 1840, where it stayed until 1988. In that year, in Milan, Paola Zanolini’s restoration removed the varnish that darkened its surface and brought to light the oeuvre’s clean chromatic and formal features that are the hallmark of Ambrogio da Fossano, also known as *il Bergognone.*

The Madonna and Child are painted within a domestic space enclosed by a simple wall with a window that opens onto an urban landscape, featuring a line of houses of various sizes built along a canal and the façade of a church surmounted by a monumental lantern (similar but not identical to the façade of the Charterhouse of Pavia). The peaceful setting of this view, animated by various figures and a boat alongside the bank, is in stark contrast with the tone of the sacred scene: the Virgin’s sad expression and the still countenance of the Child, gently placed on her knees as in a *Vesperbild,* in fact allude to the tragic future of the Son of God. The theme is reiterated by the presence of cherries, which call to mind the Passion of Christ and whose number recalls that of the nails with which he was fixed to the Cross. The apple on the right-hand side of the “table” recalls the original sin from which humanity was redeemed thanks to the sacrifice and the mystery of incarnation, which is reiterated by the Madonna’s gesture in uncovering the body of her son, showing his human nature. On the far left of the parapet lies a thread of dark grains fastened by a rose, which represents an invitation to prayer and devotion to the rosary. The artist expressed these sad themes with indescribable expressive gentleness.

The limited range of colours, the transparent light that delicately softens bodies and objects; the restraint in the pictorial execution (the mordant gilding of the aureoles, the braiding of the green curtain, the hem of the Virgin’s blue cloak and the parchment binding of the small prayer book on the parapet have only been partly preserved) give the painting a discreet and intimist character and enhance that polished and selective naturalism that makes, for private devotion, Bergognone’s small paintings the only true antagonists of Flemish contemporary production.
The originality and success of this type of image are proved by the number of paintings that the artist at times completed with few changes. In this case, a few years later Bergognone produced a second, entirely autographed version, like this one, differing mainly in the landscape: the view of a lake with a convent erected on a small island, and in the foreground, two Carthusian monks sitting on the bank in the shade of a tree.
The artist’s stylistic consistency and constant use of the same technique throughout his career, beginning in the 1480s, make it quite difficult to date his paintings. Critical literature on Bergognone is in fact marked by widely varying opinions. Various authors have placed this painting towards the end of his life, around 1512-1518, though the most likely date was nearly twenty years earlier, at the time of the portraits of *Sante* and *Santi* frescoed around 1494-1495 on the walls of Santa Maria by San Satiro in Milan, removed in the 19th century and today conserved in Pinacoteca di Brera (J.Shell, in *Pinacoteca di Brera. Scuole lombarda e piemontese,* 1300-1535, edited by F.Zeri, Milan 1988, pages 93-102).

… a window that opens onto an urban landscape, featuring a line of houses of various sizes built along a canal and the façade of a church surmounted by a monumental lantern cladding (similar but not identical to the façade of the Charterhouse of Pavia)…



The note attached to the back of this painting provides strong evidence of Wicar's activity as an appraiser.

"ce tableau est assez bien conservé, ayant seulement un peu souffert par le netoyement et quelques légères retouches dans les chairs"

March 3, 1832

Dear Shareholders,

2009 was affected by the serious global financial crisis, which began in the second half of 2008, and the negative consequences that it had worldwide. The massive monetary policy measures adopted by central banks and the rescue plans implemented in the financial sector by the governments of the main industrialised countries seem to have averted the risk of a deep recession. This boosted equity markets which, from the second quarter, underwent a significant and rapid trend reversal.

Against this backdrop, Switzerland once again came under pressure from Western countries, which accuse it of weakening their economies by encouraging tax evasion thanks to its banking secrecy. Switzerland was more inclined to be subjected to this pressure than to defend its traditional culture of protecting the right to privacy.

Another tax amnesty (the "third tax shield") allowed a number of clients to regularise their situation with regard to their country of domicile under particularly advantageous conditions. The impact for our group was limited thanks to legal repatriation and our presence in Italy, which allowed us to recover the funds that left Switzerland. Other countries, especially in Europe, indicated their plans to imitate Italy, but under markedly less clear, and most of all less advantageous, conditions.

We are determined to adapt to the new conditions for our private banking business. To this end, we will focus further our efforts to meet our customers' legitimate requirements, especially with regard to legal and financial security, efficient and quality service, as well as in the loyalty and morality that all are entitled to expect from a business partner. We also attach a particular importance to giving due consideration to our customers for the confidence they demonstrate in us. With regard to security, our capital is well above supervisory requirements (our tier 1 ratio stood at 25.4% at 31 December 2009), and our management practices place a premium on prudence, shunning unclearly identified risks that carry in their wake high and futile hopes of superior returns.

Net profit for the year, after the usual prudential provisions, amounted to CHF 20.6 million, a decrease of 23.1% versus 2008. The items that contributed to this result are described in greater detail in the sections below. Nevertheless, it is worth noting that the income statement was affected by the significant reduction in interest income, for the reasons illustrated above. In contrast, commission income proved resilient while income from trading activities, particularly in Grey Market transactions, was exceptional. This result was obtained without changing our traditional risk-adverse policy, but thanks to our role as market maker in the fixed income market and to favourable market conditions. Costs were kept under tight control and came out perfectly in line with forecasts.

I wish to thank our customers for their confidence in our bank, the management and all our employees who, although faced with onerous tasks in a particularly difficult year, demonstrated their full dedication and team spirit.

For the Board of Directors
The Chairman

Jean Patry

HIGHLIGHTS — KEY FIGURES AS AT DECEMBER 31, 2009

AMOUNTS IN CHF	PKB PRIVATBANK AG
Gross profit	33.004.917
Depreciation, value adjustments, provisions	19.228.861
Net income	20.573.180
of which proposed dividend	*18.000.000*
Shareholders' equity as per balance sheet	258.512.513
Tier 1 ratio	25,40%
Number of employees	174

COMMENTS ON THE BALANCE SHEET

Balance sheet total

As at December 31, 2009 total assets amounted to CHF 1.454,8 million against liabilities of CHF 1.178,3 million. Shareholders' equity, including net profit for the year, therefore totalled CHF 276,5 million. The increase in the balance sheet total with respect to the previous year was CHF 278,9 million, or 23,7%.

Assets

Liquid assets

This item includes cash plus clearing and postal account balances. The total of CHF 98,1 million is well above the legal requirement for primary liquidity.

Due from banks

Amounts held with banks were increased by CHF 324,0 million (+56,5%) from CHF 573,5 million to CHF 897,5 million. The result is strictly related to the increase in the Bank's liquidity, due to both the fall in loans granted to customers and the increase of client deposits. These funds are for CHF 896,1 million placed with major banks in OECD countries.
Time deposits accounted for CHF 724,0 million, CHF 647,8 milion of them due within 90 days, while sight deposits amounted to CHF 173,5 million.

Due from customers

Loans to customers registered a decrease of 15,1% from CHF 311,4 million to CHF 264,3 million, while the average exposure to debtors decreased by 20% compared to the previous year. As at December 31, 2009, secured loans represented 92,5% of the total, compared to the 94,8% at December 31, 2008.

Securities and precious metals trading portfolios

The balance sheet value of this item declined from CHF 0,5 million at December 31, 2008 to CHF 4,4 million as at December 31, 2009. Of this amount, CHF 3,9 million consists of fixed income securities.

Financial Investments

As at December 31, 2009 financial investments totalled CHF 56,4 million against CHF 48,9 million the preceding year (+15.3%). Investments in funds decreased to CHF 19,0 million (CHF 26,8 million at December 31, 2008). Fixed income securities were CHF 37,4 million (CHF 22,1 million at December 31, 2008), of which CHF 21,1 million pledged in favour of correspondent banks (CHF 19,3 million at December 31, 2008).

Main shareholdings

The bank holds the entire share capital of PKB Privatbank Ltd, St. John's, Antigua, of Valuevalor AG, Lugano and of Planetarium Advisor SA, Luxembourg. This entry also includes minority shareholdings in Cassa Lombarda Spa, Milan (33,9%), Anthilia Capital Partner Spa, Milano (38,8%), Euroceanica (UK) Ltd, London (4,6%), Rasini & C. SA, Lugano (30%) and EIH Endurance Investments Holding SA, Lugano (25%).

COMMENTS ON THE BALANCE SHEET

Assets

Fixed assets

Decreased from CHF 36,4 million to CHF 34,3 million (-CHF 2,1 million, or 5,7%). CHF 35,0 million represent tangible fixed assets that include the bank's buildings along with fixtures and furniture, any capitalised renovation works and computer equipment.

Other assets

Other assets decreased to CHF 3,6 million as at December 31, 2009 from CHF 11,8 million at the end of the preceding year. This item consists mainly in positive replacement values that amount to CHF 3,4 million. Positive replacement values relate to derivative financial instruments, taken out for the bank's own account or for account of clients, and represent the claims on counterparties.

Liabilities

Due to banks

Amounts due to banks decreased from CHF 194,5 million to CHF 159,5 million (– CHF 35,0 million, or 18%).

Due to customers

These increased by CHF 332,3 million, or 56,8% (CHF 917,0 million at 31 December 2009, CHF 584,7 million at 31 December 2008). The very low level of interest rates of the main currencies, which emerged particularly during the second half of the year, generated a build-up of cash in customers' current accounts, pending better investment opportunities.

Other liabilities

This item amounted to CHF 8,7 million as at December 31, 2009 (– CHF 9,5 million, or 52,2%). It comprises predominantly the Bank's liability for indirect taxes (CHF 4,4 million) as well as negative replacement values on derivative instruments (CHF 4,2 million), representing its liability to counterparties.

Shareholders' equity

Shareholders' equity as per balance sheet totals CHF 256,0 million, (excluding reserves for general banking risks and the year's net profit). After approval by the Shareholders' Meeting of the Board of Directors' proposal for the allocation of profits, shareholders' equity on the balance sheet will amount to CHF 258,5 million.

COMMENTS ON THE INCOME STATEMENT

Revenues

Looking at the various items on the income statement, interest income was CHF 11,0 million, a decrease of 48,6% compared to the previous year, mainly due to the significant reduction of interest rates and the lower average exposure to customers.
All commission income items were lowers: income from credit operations decreased by 34,4%, securities trading and investment operations decrised by 5,4% and commission income from other services decrised by 16,4%. Overall, commission income declined from CHF 50,5 million in 2008 to CHF 44,1 million in 2009 (– CHF 6,4 million, or 12,6%).
Trading income was CHF 17,7 million, against CHF 10,8 million in 2008 (+63,8%). Results from both securities trading (+193,2%) and currency trading (+17,6%) improved.
Other ordinary income came in at CHF 4,9 million, compared to CHF 1,5 million the previous year (+ CHF 3,4 million, or 226,6%). In 2009, financial investments registered a capital gain of EUR 1,5 million, compared to the previous year capital loss of CHF 3,2 million; equity investments income were lowers: CHF 2,5 million at December 31, 2009 (CHF 4,0 million at December 31, 2008).

Total revenues can be broken down as follows:

14,1%	from interest operations
56,8%	from commissions and services
22,8%	from trading activities
6,3%	from other ordinary income.

Expenses

Personnel costs increased from CHF 33,6 million at 31 December 2008 to CHF 34,5 million at 31 December 2009 (+CHF 0,9 million, or 2,6%). Operating expenses increased to CHF 10,3 million at December 31, 2009, or 4,0% (CHF 9,9 million at December 31, 2008).

Gross profit

The gross profit amounts to CHF 33,0 million, a decrease of CHF 7,8 million (– 19,1%) compared to the 2008 financial year.

Depreciation on fixed assets

The total amount of depreciation stands at CHF 16,6 million, increasing compared to the previous period (+ CHF 5,9 million). This figure includes write-offs on equity investments of CHF 10,6 million.

Provisions, valuation adjustments and losses

In 2009, provisions totalled CHF 2,0 million for operational risks and include loss for CHF 597.000.–. Compared to 2008, this represented a lower expense of CHF 2,8 million.

Extraordinary income

Of the total of CHF 12,5 million, CHF 8,3 million relates to the release of provisions no longer required, and CHF 3,5 million from the dissolution of the reserve for general banking risks and from the revaluation of a shareholding written down in the previous year.

Extraordinary expenses

CHF 100.000.– is entirely due to a provision set up in view of future allocations to the "Fondazione PKB", a charitable foundation established in 2009.

Net profit for the year

The net profit for the year amounts to CHF 20,5 million. Compared with the net profit of the previous year, CHF 26,8 million, it shows a decrease of CHF 6,3 million or 23,5%.

BALANCE SHEET AS AT DECEMBER 31, 2009

Assets AMOUNTS IN CHF	2009	2008
Liquid assets	98.119.395,22	92.073.476,79
Money market instruments	334.152,53	2.811.814,59
Due from banks	897.531.199,77	573.538.468,50
Due from customers	213.182.754,63	268.414.766,86
Mortgage loans	51.151.243,64	43.074.676,07
Securities and precious metals trading portfolios	4.494.052,68	540.466,06
Financial investments	56.404.700,56	48.989.733,52
Participations	91.890.404,45	93.244.495,28
Fixed assets	34.355.056,72	36.444.738,87
Accrued income and prepaid expenses	3.707.937,91	4.931.529,50
Other assets	3.644.938,28	11.871.612,40
Total assets	**1.454.815.836,39**	**1.175.935.778,44**
Total subordinated assets	*0,00*	*0,00*
Total due from group companies and significant shareholders	*1.299.038,45*	*0,00*

Liabilities AMOUNTS IN CHF	2009	2008
Due to banks	159.529.918,02	194.590.687,55
Due to customers on savings and deposit accounts	748.243,39	1.035.787,59
Due to customers, other	916.224.150,90	583.657.258,05
Cash bonds	50.000,00	50.000,00
Accrued expenses and deferred income	9.981.479,95	7.352.007,19
Other liabilities	8.700.813,68	18.299.556,75
Value adjustments and provisions	23.550.716,60	29.550.147,46
Reserves for general banking risks	59.518.000,00	62.961.000,00
Share capital	16.000.000,00	16.000.000,00
General statutory reserves	35.500.000,00	33.300.000,00
Other reserves	204.000.000,00	202.000.000,00
Profit carried forward	439.333,85	331.628,85
Profit for the year	20.573.180,00	26.807.705,00
Total liabilities	**1.454.815.836,39**	**1.175.935.778,44**
Total subordinated liabilities	*0,00*	*0,00*
Total due to group companies and significant shareholders	*74.612.899,04*	*153.745.558,62*

OFF - BALANCE SHEET OPERATIONS

AMOUNTS IN CHF	2009	2008
Contingent liabilities	69.407.607,38	76.531.362,50
Irrevocable commitments	4.650.229,00	7.656.742,00
Uncalled liabilities to pay in capital or additional capital on shares	4.754.956,10	5.499.682,31
Derivative instruments:		
Positive replacement value	3.825.023,76	12.589.848,68
Negative replacement value	4.524.148,16	13.116.988,44
Contract volume	206.833.517,00	370.923.063,65
Fiduciary transactions	947.185.314,46	1.486.418.318,73

INCOME STATEMENT

AMOUNTS IN CHF	2009	2008
Results from interest activities		
Interest and discount income	12.784.232,82	30.197.015,79
Interest and dividend income on trading portfolios	66.406,22	63.429,44
Interest and dividend income on financial investments	945.634,10	691.923,76
Interest expense	–2.786.601,60	–9.497.049,41
Subtotal: Net interest income	**11.009.671,54**	**21.455.319,58**
Results from commission and service fee activities		
Commission income on lending activities	940.937,33	1.435.351,69
Commission income from securities and investment business	41.525.627,64	43.887.774,96
Other commission income	11.456.074,17	13.712.400,77
Commission expenses	–9.733.440,39	–8.482.103,76
Subtotal: Results from commission and service fee activities	**44.189.198,75**	**50.553.423,66**
Results from trading operations	**17.709.111,91**	**10.857.575,74**
Other ordinary results		
Income from disposal of financial investments	668.374,66	–283.254,79
Income from participations	2.540.000,00	4.040.000,00
Real estate income	803.972,20	805.596,40
Other ordinary income	1.544.809,62	0,00
Other ordinary expenses	–624.669,74	–2.988.169,97
Subtotal: Other ordinary results	**4.932.486,74**	**1.574.171,64**
Operating expenses		
Personnel expenses	–34.499.115,38	–33.652.269,89
General administrative expenses	–10.336.436,39	–9.983.397,92
Subtotal: Operating expenses	**–44.835.551,77**	**–43.635.667,81**
Gross profit	**33.004.917,17**	**40.804.822,81**
Depreciation and write-offs on fixed assets	–16.631.424,69	–10.771.000,00
Value adjustments, provisions and losses	–2.597.437,11	–5.431.614,66
Result before extraordinary items and taxes	**13.776.055,37**	**24.602.208,15**
Extraordinary income	12.563.908,58	9.787.793,65
Extraordinary expenses	–100.000,00	–600.000,00
Taxes	–5.666.783,95	–6.982.296,80
Net profit for the year	**20.573.180,00**	**26.807.705,00**

DISTRIBUTION OF PROFIT

Proposal of the Board of Directors — AMOUNTS IN CHF	2009	2008
Profit for the year	20.573.180,00	26.807.705,00
Profit carried forward from previous year	439.333,85	331.628,85
Disposable profit	**21.012.513,85**	**27.139.333,85**
Profit distribution		
– Allocation to general statutory reserves	1.800.000,00	2.200.000,00
– Allocation to other reserves	1.000.000,00	2.000.000,00
– Dividend distribution	18.000.000,00	22.500.000,00
Profit carried forward	**212.513,85**	**439.333,85**

1. Operations and staff

PKB Privatbank AG is present in Lugano (registered office), where it operates as a full-service bank and in Bellinzona, Geneva and Zurich where it provides private banking services.
The bank's principal activities include portfolio management and all related services, «market making» on the primary Swiss franc bond market, foreign exchange trading and commercial operations.
The number of employees at the end of 2009 was 174 (2008: 174).
All of the essential bank's activities are followed internally, without recourse to outsourcing.

2. Accounting and valuation principles used

Accounting and valuation principles	The accounts are established by transaction date principle, in accordance with the directives of the federal financial market supervision authority (FINMA).
Foreing funds and currencies	Valuation at year-end rates. Exchange differences have been booked in the income statement under «Results from trading operations». Exchange rates used for the main currencies were as follows: EUR 1,4841 (2008: 1,4924); USD 1,0299 (2008: 1,0610).
Credits and general liabilities	Valuation at nominal value.
Securities and precious metals trading portfolios	Valuation at market price.
Financial investments	Shares: at market value at the end of the financial year, however not exceeding the acquisition price. Fixed-income securities: the difference between the acquisition price and the redemption value is distributed over the number of years between the date of acquisition and the maturity date.
Participations	Valuation at acquisition price, after charging any economically necessary depreciation.
Fixed assets	Stated at acquisition cost after necessary deductions for ordinary and extraordinary depreciation. Depreciation is charged using the straight-line method. The periods and rates for ordinary depreciation are as follows:

Buildings	50 years	2,00 %
Renovation expenses	3 years	33,33 %
Equipment	3 years	33,33 %
Furniture	3 years	33,33 %
Business equipment and vehicles	3 years	33,33 %
IT Hardware/Software	3 years	33,33 %
Intangibles	5 years	20,00 %

Reserves for general banking risks	Reserves for general banking risks include a taxed sum of CHF 28.500.000,00.
Credit risks	Where necessary, the bank makes appropriate provisions which are booked under «Value adjustments and provisions».
Doubtful interest	Interest and commissions overdue by 90 days are not recognized as revenues but are booked under provisions. The concerned loans are considered as non-performing.
Revenues from trading activities	These revenues are recorded in the income statement before deduction of refinancing expenses.
Contingent liabilities, irrevocable commitments, payment commitments and guarantee liabilities	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under «Value adjustments and provisions».

Derivative financial instruments	Valuation is effected at market prices (marked-to-market). The use of derivative financial instruments for the bank's own account is mainly for hedging purposes and only marginally for trading operations within limits established by internal regulations.
Principles applied in the identification of risk of loss and calculation of value adjustments	Credits are assessed regularly, at least once a year. Where the risk warrants it, the assessment is carried out more frequently and in a timely manner, particularly for non-performing loans. Where a need is identified to raise provisions for the unsecured portion, these are booked immediately.
Collateral assets for loans	The realizable value is calculated on the basis of the market price or sale value, from which the costs of disposal and refinancing are deducted.
Risk management	The risk management policy, examined every year by the Board of Directors, constitute the basis of the Bank's risk management process. This is combined with a structure of limits, defined for every identified risk category, which is checked constantly, with particular regard to the risks indicated below. The Board of Directors carries out sufficient risk valuations in order to guarantee that the risk of a significant error in the annual accounts can be considered as low. In accordance with the laws in force, the Bank has established a set of Regulations in place for the consolidated Supervision of the Coparfin Group. These Regulations set out – in an integrated framework – the risk management guidelines to be followed by all Coparfin Group companies. Risk management is an integral part of the internal control system provided for by FINMA circular 08/24. The Bank's internal control system is supervised by the Board of Directors, which lays down its operational guidelines and periodically checks its adequacy and effective functioning. The Board is supported in this task by the Audit Committee, which has advisory and recommendation functions, and by the Risk Committee (RICO), which is responsible for defining the processes for the integrated measurement, management and control of risks throughout the Coparfin Group. The RICO meets at least every quarter and benefits from an integrated Group risk reporting system. Internal Audit checks and evaluates the internal control system, and helps to constantly fine-tune it. *Credit risk* Risk management and control are governed by a set of Regulations approved by the Board of Directors. These Regulations provide for the establishment of a Credit Committee. Credit risk is controlled through a system of exposure limits and geographic concentration (country risk) for which there are specific provisions. Counterparties and guarantees provided are analysed quantitatively and qualitatively. Capital requirements for credit risk are calculated using the standard method with the replacement principle. *Market risk* Management and control of market risk associated with asset and liability management are governed by a set of Regulations approved by the Board of Directors. These Regulations provide for the establishment of an Asset&Liability Committee (ALCO). Interest-rate risk is controlled through indicators that measure the income effect and the value effect, as calculated on the basis of stress tests. Exchange rate risk is controlled by a system of exposure limits. Interest-rate risk is hedged using derivatives (FRAs and IRSs).

Market risk (trading portfolio)

With respect to its trading portfolio, the Bank is a market maker on the primary market for bonds denominated in Swiss francs. It is also active in currency, bond and equity trading.

Management and control of the market risk associated with trading activities are governed by a set of Regulations approved by the Board of Directors and by internal rules and regulations issued by the management.

The market risk associated with the trading portfolio is controlled using a system of exposure limits, the results of which are reported to the management.

Capital requirements for market risk are calculated using the standardised approach.

Liquidity risk

The management and control of liquidity risk are governed by the Board of Directors and the management. Liquidity risk is monitored in accordance with the law.

Operational risk

The management and control of operational risk, which includes legal and compliance risks, are governed by the Board of Directors through a set of Regulations and by the management through internal rules and regulations.

Operational risk is monitored through a system of loss recognition, the results of which are submitted to the management. Operating risk is mitigated as follows:

- Processes: the Bank manages its activities, especially those that may be affected by external events, in accordance with the legal and ethical provisions applicable to the banking sector and ensuring that operational orders and contracts with customers are transparent and clearly understood. The Bank applies the principles of segregation of duties.
- Human resources: the Bank's aim is to recruit qualified personnel capable of implementing its strategy and identifying with the Bank's culture. The latter is reflected by management and staff as well as by the approach of the Coparfin Group to risk management. As to compliance risk and its reputational impact, risk mitigation is achieved through the constant training and awareness raising of staff, at all levels, a clear definition of its work processes and responsibilities, as well as the dissemination of a corporate culture founded, among others, on the pillars of total integrity and uncompromising ethical and professional standards. To this end, the Bank has instituted a PKB Charter of Values, which has been presented and discussed throughout the Bank. The Bank has also a Legal & Compliance department that covers all compliance activities.
- Internal systems: the Bank has the internal and external expertise to ensure the in-house development and maintenance of its IT system;
- External events: the Bank has implemented security measures designed specifically to prevent unauthorised persons from accessing areas where "sensitive" documents are stored. The management has prepared a General Continuity Plan with a detailed analysis, to ensure the continuity of its activities and cope with the different scenarios outlined therein, and has identified the minimum resources necessary to do so.

Capital requirements for operational risk are calculated according to the basic indicator principle.

Legal risk

To prevent risks, the bank ensures that its activity particularly that involving any external impact, is governed by legal and ethical standards applicable in the banking sector, and by ensuring knowledge and transparency in its operational and contractual relations with clients.

Reputational and compliance risks
Mitigation of reputational risk is achieved through constant training and actions to increase awareness of staff at all levels, through a clear definition of operational processes and responsibilities, and by disseminating a corporate culture based on an irreproachable activity and the highest standards of professional ethics.
A PKB Charter of Values was also introduced. This was presented and discussed at all levels throughout the Bank.
The Bank has a Legal and Compliance department that covers all aspects of compliance.

Bank policy in the use of derivative financial instruments

Positions taken in derivative instruments are, in general, held on behalf of clients. For the structural management of the balance sheet, the bank hedges interest rate risk via the use of Interest Rate Swaps and Forward Rate Agreements.

3. Information on the balance sheet

Assets pledged or assigned to secure own liabilities and assets subject to ownership reservation — AMOUNTS IN CHF/000	2009	2008
Securities pledged	21.090	19.357
Effective obligations	0	0

Liabilities to own pension plans — AMOUNTS IN CHF/000	2009	2008
Total	10.245	**18.427**

The Bank's employees are affiliated to an autonomous and independent social welfare institution, in accordance with legal requirements governing occupational pension schemes in Switzerland (LPP). The rules of the fund are based on those of a defined contributions scheme. 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.
To complete the occupational pension arrangements under the terms of federal law, a foundation of a social nature has been established – i.e. patronage – based pension funds, autonomous and independent. This foundation may provide assistance to employees.

Reserve for employer's contributions — AMOUNTS IN CHF/000	Nominal value as at Dec. 31, 2009	Usage waived as at Dec. 31, 2009	Other value adjustments as at Dec. 31, 2009	Balance sheet as at Dec. 31, 2009
Patronage pension institution	1.300	1.300	–	–
Pension institution	–	–	–	–
Total	**1.300**	**1.300**	**–**	**–**

Economic benefits/liabilities and costs of pensions — AMOUNTS IN CHF/000	Surplus/ deficit as at Dec. 31, 2009	Company's economic benefit/ liability as at Dec. 31, 2009	Contributions offset during 2009	Contributions paid during the period and booked as personnel expenses	
				2009	2008
Patronage pension institution	2	–	–	–	–
Pension institution	605	–	–	2.425	2.572
Total	**607**	**–**	**–**	**2.425**	**2.572**

Value adjustments and provisions / Reserves for general banking risks

AMOUNTS IN CHF/000

	Balance end of preceding year (Dec. 31, 2008)	Specific usage and reversals	Change in definition of purpose (reclassifi-cations)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversals credited to income statement	Balance end of current year (Dec. 31, 2009)
Value adjustments and provisions for default risks (credit and country risks)	6.589	–552		35		–3.738	2.334
Value adjustments and provisions for other business risks	11.400					–3.000	8.400
Other provisions	11.561	–1.049		–3	3.908	–1.600	12.817
Total value adjustments and provisions	**29.550**						**23.551**
Less: Value adjustments directly netted with assets							
Total value adjustments and provisions as per balance sheet	**29.550**						**23.551**
Reserves for general banking risks	**62.961**					**–3.443**	**59.518**

Breakdown of other assets and other liabilities

AMOUNTS IN CHF/000

	2009		2008	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	3.458	4.157	11.638	12.165
Indirect taxes	151	4.493	175	6.114
Other	36	51	59	21
Total	**3.645**	**8.701**	**11.872**	**18.300**

Statement of changes in shareholders' equity	AMOUNTS IN CHF/000
Shareholders' equity as at January 1, 2009	
Share capital paid-in	16.000
General legal reserve	33.300
Other reserves	202.000
Reserves for general banking risks	62.961
Disposable profit	27.140
Total shareholders' equity as at January 1, 2009 (before distribution of profit)	**341.401**
+ Allocation to general legal reserve	2.200
+ Allocation to other reserves	2.000
+ Capital increase	
+ Premium over par value	
– Dissolution of reserve for general banking risks	–3.443
– Dividend and other distributions of retained earnings brought forward	–26.700
+ Profit for the year	20.573
Total shareholders' equity as at December 31, 2009 (before distribution of profit)	**336.031**
Thereof:	
Share capital paid-in	16.000
General legal reserve	35.500
Other reserves	204.000
Reserves for general banking risks	59.518
Disposable profit	21.013

Amounts due from and due to group companies as well as loans and exposure to members of the bank's governing bodies — AMOUNTS IN CHF/000	2009	2008
Amount receivable from group companies	30.753	34.578
Liabilities to group companies	73.259	1.144
Loans to bank's governing bodies	2.990	2.893

Loans granted to the management are awarded under the same conditions applied to Bank staff.
Transactions with affiliated companies were carried out at arm's length and concern securities transactions, payments and treasury activities.

Capital structure — AMOUNTS IN CHF/000	2009			2008		
	Total par value	Number of shares	Dividend bearing capital	Total par value	Numbers of shares	Dividend bearing capital
Share capital	16.000	16.000	16.000	16.000	16.000	16.000
Total capital	**16.000**	**16.000**	**16.000**	**16.000**	**16.000**	**16.000**

Significant shareholders — AMOUNTS IN CHF/000	2009		2008	
	Par value	Participation in %	Par value	Participation in %
Voting shareholder: Coparfin S.A., Luxembourg	16.000	100.00	16.000	100.00

There are neither conditional share capital nor significant non-voting shareholders.

Coparfin S.A. is a fully-owned subsidiary of Compagnie de l'Occident pour la Finance et l'Industrie SA, a Luxembourg company listed on the stock exchange. The family of the late Serafino Trabaldo Togna, Minusio (TI), indirectly controls 51,6% of the voting rights of the latter company.

4. Information on off-balance sheet transactions

Breakdown of fiduciary transactions AMOUNTS IN CHF/000	2009	2008	CHANGE
Fiduciary transactions with third-party banks	621.875	1.175.256	–553.381
Fiduciary transactions with banks of the group and associated banks	291.590	269.613	+21.977
Loans and other financial transactions	33.720	41.549	–7.829
Total	**947.185**	**1.486.418**	**–539.233**

5. Information on the income statement

Breakdown of results from trading operations AMOUNTS IN CHF/000	2009	2008	CHANGE
Foreign exchange and banknotes	9.213	7.900	+1.313
Precious metals	253	147	+106
Securities	8.121	3.334	+4.787
Other	122	–523	+645
Total	**17.709**	**10.858**	**+6.851**

Extraordinary revenues and expenses

Extraordinary income mainly comprised the dissolution of provisions no longer financially necessary for CHF 8,3 million. Reserves for general banking risks totalling CHF 3,5 million were also released.

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting
of PKB Privatbank AG, Lugano

As statutory auditor, we have audited the accompanying financial statements of PKB Privatbank SA which comprise the balance sheet, income statement and notes, on pages 12 to 25, for the year ended 31 December 2009.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2009 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 Over-sight Act (AOA) and independence (article 728 Code of Obligations (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.

Lugano, March 26th, 2010
Ernst & Young SA

Mario Mosca
Licensed audit expert
(Auditor in charge)

Enza Luongo
Licensed audit expert

Consolidated companies:

PKB Privatbank AG, Lugano	Parent company
PKB Privatbank Limited, St. John's, Antigua (W.I.)	Subsidiary company (100%)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2009

Assets AMOUNTS IN CHF	2009	2008
Liquid assets	98.119.678,20	92.074.099,17
Money market instruments	15.057.117,31	39.673.841,92
Due from banks	1.222.187.346,58	841.285.013,56
Due from customers	219.231.800,08	274.420.601,80
Mortgage loans	51.151.243,64	43.074.676,07
Securities and precious metals trading portfolios	4.494.052,68	540.466,06
Financial investments	66.508.480,24	50.995.326,96
Unconsolidated participations	52.697.592,30	49.171.782,50
Tangible fixed assets	61.224.142,26	61.416.260,09
Intangible assets	3.022.638,86	7.826.409,75
Accrued income and prepaid expenses	4.171.996,02	5.599.533,74
Other assets	4.186.445,93	13.504.445,62
Total assets	**1.802.052.534,10**	**1.479.582.457,24**
Total subordinated assets	*0,00*	*0,00*
Total due from group companies and significant shareholders	*0,00*	*0,00*

Liabilities AMOUNTS IN CHF	2009	2008
Due to banks	85.883.712,33	60.053.729,95
Due to customers on savings and deposit accounts	748.243,39	1.035.787,59
Due to customers, other	1.313.471.142,98	999.725.382,68
Cash bonds	50.000,00	50.000,00
Accrued expenses and deferred income	10.272.230,77	7.907.704,46
Other liabilities	8.767.294,17	18.299.556,75
Value adjustments and provisions	35.876.319,68	40.939.714,39
Reserves for general banking risks	60.763.367,67	64.206.367,67
Share capital	16.000.000,00	16.000.000,00
Consolidated reserves	248.864.213,75	246.867.835,69
Group profit	21.356.009,36	24.496.378,06
Total liabilities	**1.802.052.534,10**	**1.479.582.457,24**
Total subordinated liabilities	*0,00*	*0,00*
Total due to group companies and significant shareholders	*15.081.488,92*	*19.208.544,90*

CONSOLIDATED OFF-BALANCE SHEET OPERATIONS

AMOUNTS IN CHF	2009	2008
Contingent liabilities	69.417.607,38	76.541.362,50
Irrevocable commitments	4.650.229,00	7.656.742,00
Uncalled liabilities to pay in capital or additional capital on shares	4.754.956,10	5.499.682,31
Credit commitments		
Derivative instruments:		
Positive replacement value	3.825.023,76	12.589.848,68
Negative replacement value	4.524.148,16	13.116.988,44
Contract volume	206.833.517,00	370.923.063,65
Fiduciary transactions	735.696.045,06	1.247.907.158,63

CONSOLIDATED INCOME STATEMENT

AMOUNTS IN CHF	2009	2008
Results from interest activities		
Interest and discount income	16.064.120,89	43.945.994,37
Interest and dividend income on trading portfolios	66.406,22	63.596,21
Interest and dividend income on financial investments	1.093.512,79	761.922,26
Interest expense	–4.149.497,17	–20.472.872,96
Subtotal: Net interest income	**13.074.542,73**	**24.298.639,88**
Results from commission and service fee activities		
Commission income on lending activities	1.201.892,68	1.797.639,22
Commission income from securities and investment business	42.480.127,39	44.751.915,40
Other commission income	11.201.719,20	13.981.960,09
Commission expenses	–10.139.497,22	–8.914.058,68
Subtotal: Results from commission and service fee activities	**44.744.242,05**	**51.617.456,03**
Results from trading operations	**17.836.652,43**	**10.350.339,31**
Other ordinary results		
Income from disposal of financial investments	662.780,34	597.236,36
Income from unconsolidated participations	526.702,10	565.330,17
Real estate income	803.972,20	805.596,40
Other ordinary income	1.544.809,62	0,00
Other ordinary expenses	–624.669,74	–2.988.169,97
Subtotal: Other ordinary results	**2.913.594,52**	**–1.020.007,04**
Operating expenses		
Personnel expenses	–35.220.464,14	–34.312.053,51
General administrative expenses	–10.811.879,58	–10.529.889,34
Subtotal: Operating expenses	**–46.032.343,72**	**–44.841.942,85**
Gross profit	**32.536.688,01**	**40.404.485,33**
Depreciation and write-offs on fixed assets	–14.358.510,73	–13.435.822,69
Value adjustments, provisions and losses	–2.597.437,11	–5.431.614,66
Result before extraordinary items and taxes	**15.580.740,17**	**21.537.047,98**
Extraordinary income	12.305.589,29	9.787.793,65
Extraordinary expenses	–100.000,00	–600.000,00
Taxes	–6.430.320,10	–6.228.463,57
Group net profit	**21.356.009,36**	**24.496.378,06**

CONSOLIDATED CASH FLOW STATEMENT

AMOUNTS IN CHF/000	2009		2008	
	Sources of funds	Application of funds	Sources of funds	Application of funds
Cash flow from operating activities (internal sources)				
Net income	21.356		24.496	
Depreciation and write-offs on non-current assets	14.359		13.436	
Value adjustments and provisions	2.000		5.221	
Accrued income and prepaid expenses	1.427		3.594	
Accrued expenses and deferred income	2.365			5.352
Other items		10.663		12.123
Dividend of preceding year		22.500		25.000
Balance	**8.344**		**4.272**	
Cash flow from investing activities				
Unconsolidated participations		9.026		525
Real estate		396		1.141
Other fixed assets		3.466		4.347
Intangible assets				
Balance		**12.888**		**6.013**
Cash flow from banking activities				
Medium and long-term transactions (more than 1 year)				
Due to banks				
Due to customers				
Cash bond issues		50	50	
Due from banks				
Due from customers	12.927		1.710	
Mortgage Loans		19.094		7.954
Financial investments		24.049		920
Short-term transactions				
Due to banks	25.830			15.423
Due to customers	313.458		73.095	
Due from money market instruments	24.617			38.938
Due from banks		380.902		25.860
Due from customers	42.261		80.145	
Mortgage Loans	11.018		1.479	
Securities and precious metals portfolios		3.954	2.881	
Other assets	9.318			718
Other liabilities		9.532		1.777
Other items	8.742		363	
Liquidity				
Cash		6.046		66.392
Balance	**4.544**		**1.741**	

1. Operations and staff

The PKB Group is present in Switzerland in Lugano, Bellinzona, Geneva and Zurich, and through its subsidiary PKB Privatbank Limited, in Antigua (W.I.). The principal activities of the Group are private banking and commercial and financial operations. The number of employees at the end of 2009 was 180 (2008: 180).
All of the bank's activities are followed internally, without recourse to outsourcing.

2. Accounting and valuation principles used

Consolidation principles	The accounting principles of the Group comply with the provisions of the Swiss Federal Law on Banks and Savings Banks, and the accounting regulations of the Swiss Financial Markets Supervisory Authority (FINMA). The consolidation is prepared using the purchase method.
Fully-consolidated participations	The consolidated financial statements contain the annual accounts of PKB Privatbank AG, Lugano and PKB Privatbank Ltd, St. John's, Antigua.
Accounting and valuation principles	The accounts are established by recording operations on the date of the transaction. The accounting principles set out below have been used.
Foreign funds and currencies	Valuation at year-end rates. Exchange differences have been booked in the income statement under "Results from trading operations". Exchange rates used for the main currencies were as follows: EUR 1,4841 (2008: 1,4924); USD 1,0299 (2008: 1,0610).
Credits and general liabilities	Valuation at nominal value.
Securities and precious metals trading portfolios	Valuation at market price.
Financial investments	Shares: at market value at the end of the financial year, however not exceeding the acquisition price. Fixed-income securities: the difference between the acquisition price and the redemption value is distributed over the number of years between the date of acquisition and the maturity date.
Non fully-consolidated participations	Participation not exceeding 20%. — Valuation at acquisition price, after deduction of any economically necessary depreciation. Participation between 20% and 50%: — Valutation at equity value. Irrespective of the percentage of participation, companies which are not material for a proper valuation of the Group's assets or revenues have been valued at acquisition price, less such depreciation as is economically necessary.
Tangible fixed assets	Stated at acquisition cost after necessary deductions for ordinary depreciation. Depreciation is charged using the straight-line method. The periods and rates used for depreciation are as follows:

Buildings	50 years	2,00 %
Renovation expenses	20 years	5,00 %
Equipement	10 years	10,00 %
Furniture	10 years	10,00 %
Business equipment and vehicles	5 years	20,00 %
Hardware/Software	3 years	33,33 %
Intangible assets	5 years	20,00 %

Reserves for general banking risks	Reserves for general banking risks include a taxed sum of CHF 29.745.367,67.

Intangible assets	Intangible assets shown on the balance sheet refer to the goodwill paid for the purchase of various shareholdings and for the acquisition of Banca Monte Paschi (Suisse) SA. The goodwill paid for Cassa Lombarda SpA is amortized over 10 years.
Credit risks	Where necessary, the bank makes appropriate provisions, which are booked under “Value adjustments and provisions”.
Doubtful interest	Interest and commissions overdue by 90 days are not recognized as revenues but are booked under provisions. The concerned loans are considered as non-performing.
Revenues from trading activities	These revenues are recorded in the income statement before deduction of refinancing expenses.
Contingent liabilities, irrevocable commitments payment commitments and guarantee liabilities	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under “Value adjustments and provisions”.
Derivative financial instruments	Valuation is effected at market prices (marked-to-market). The use of derivative financial instruments for the bank’s own account is mainly for hedging purposes and only marginally for trading operations within limits established by internal regulations.
Principles applied in the identification of risk of loss and calculation of value adjustments	Credits are assessed regularly, at least once a year. Where the risk warrants it, the assessment is carried out more frequently and in a timely manner, particularly for non-performing loans. Where a need is identified to raise provisions for the unsecured portion, these are booked immediately.
Collateral assets for loans	The realizable value is calculated on the basis of the market price or sale value, from which the costs of disposal and refinancing are deducted.

Risk management

The risk management policy, examined every year by the Board of Directors, constitutes the basis of the Bank’s risk management process. This is combined with a structure of limits, defined for every identified risk category, which is checked constantly, with particular regard to the risks indicated below.
The Board of Directors carries out sufficient risk valuations in order to guarantee that the risk of a significant error in the annual accounts can be considered as low. In accordance with the laws in force, the Bank has established a set of Regulations in place for the consolidated Supervision of the Coparfin Group. These Regulations set out – in an integrated framework – the risk management guidelines to be followed by all Coparfin Group companies. Risk management is an integral part of the internal control system provided for by FINMA circular 08/24.
The Bank’s internal control system is supervised by the Board of Directors, which lays down its operational guidelines and periodically checks its adequacy and effective functioning. The Board is supported in this task by the Audit Committee, which has advisory and recommendation functions, and by the Risk Committee (RICO), which is responsible for defining the processes for the integrated measurement, management and control of risks throughout the Coparfin Group. The RICO meets at least every quarter and benefits from an integrated Group risk reporting system. Internal Audit checks and evaluates the internal control system, and helps to constantly fine-tune it.

Credit risk

Risk management and control are governed by a set of Regulations approved by the Board of Directors. These Regulations provide for the establishment of a Credit Committee. Credit risk is controlled through a system of exposure limits and geographic concentration (country risk) for which there are specific provisions. Counterparties and guarantees provided are analysed quantitatively and qualitatively. Capital requirements for credit risk are calculated using the standard method with the replacement principle.

Market risk

Management and control of market risk associated with asset and liability management are governed by a set of Regulations approved by the Board of Directors. These Regulations provide for the establishment of an Asset&Liability Committee (ALCO).
Interest-rate risk is controlled through indicators that measure the income effect and the value effect, as calculated on the basis of stress tests. Exchange-rate risk is controlled by a system of exposure limits.
Interest-rate risk is hedged using derivatives (FRAs and IRSs).

Market risk (trading portfolio)

With respect to its trading portfolio, the Bank is a market maker on the primary market for bonds denominated in Swiss francs. It is also active in currency, bond and equity trading.
Management and control of the market risk associated with trading activities are governed by a set of Regulations approved by the Board of Directors and by internal rules and regulations issued by the management.
The market risk associated with the trading portfolio is controlled using a system of exposure limits, the results of which are reported to the management.
Capital requirements for market risk are calculated using the standardised approach.

Liquidity risk

The management and control of liquidity risk are governed by the Board of Directors and the management. Liquidity risk is monitored in accordance with the law.

Operational risk

The management and control of operational risk, which includes legal and compliance risks, are governed by the Board of Directors through a set of Regulations and by the management through internal rules and regulations.
Operational risk is monitored through a system of loss recognition, the results of which are submitted to the management. Operating risk is mitigated as follows:

- Processes: the Bank manages its activities, especially those that may be affected by external events, in accordance with the legal and ethical provisions applicable to the banking sector and ensuring that operational orders and contracts with customers are transparent and clearly understood. The Bank applies the principles of segregation of duties.
- Human resources: the Bank's aim is to recruit qualified personnel capable of implementing its strategy and identifying with the Bank's culture. The latter is reflected by management and staff as well as by the approach of the Coparfin Group to risk management. As to compliance risk and its reputational impact, risk mitigation is achieved through the constant training and awareness raising of staff, at all levels, a clear definition of its work processes and responsibilities, as well as the dissemination of a corporate culture founded, among others, on the pillars of total integrity and uncompromising ethical and professional standards. To this end, the Bank has instituted a PKB Charter of Values, which has been presented and discussed throughout the Bank. The Bank has also a Legal & Compliance department that covers all compliance activities.
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Reputational and compliance risks
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Bank policy in the use of derivative financial instruments

Positions taken in derivative instruments are, in general, held on behalf of clients.
For the structural management of the balance sheet, the Bank hedges interest rate risk via the use of Interest Rate Swaps and Forward Rate Agreements.

3. Information on the consolidated balance sheet

Schedule of collateral for loans and off-balance sheet transactions — AMOUNTS IN CHF/000	TYPE OF COLLATERAL			TOTAL
	Mortgage collateral	Other collateral	Whitout collateral	
Loans				
Due from customers	3.079	196.521	19.632	219.232
Mortgage loans	51.151			51.151
residential	45.107			
commercial	5.743			
industrial	301			
Total loans	**54.230**	**196.521**	**19.632**	**270.383**
Preceding year	*45.799*	*255.642*	*16.055*	*317.496*
Off-balance sheet transactions				
Contingent liabilities	665	45.409	23.344	69.418
Irrevocable commitments		1.250	3.400	4.650
Liabilities for calls on shares and other equities		4.755		4.755
Credit commitments				
Total off-balance sheet transactions	**665**	**51.414**	**26.744**	**78.823**
Preceding year	*600*	*69.714*	*19.384*	*89.698*

Doubtful loans — AMOUNTS IN CHF/000	Gross amount	Estimated realizable value of collateral	Net amount	Provisions
Current year	2.684	853	1.831	1.865
Preceding year	*7.054*	*3.678*	*3.376*	*3.384*

Securities and precious metals trading portfolios — AMOUNTS IN CHF/000	2009	2008
Debt instruments		
Exchange listed	3.930	308
Unlisted		
Shares and similar securities and rights	552	229
Precious metals	12	3
Total securities and precious metals trading portfolios	**4.494**	**540**
of which securities eligible for discount at the Swiss National Bank	*1.232*	*308*

Financial investments — AMOUNTS IN CHF/000	2009	2008	2009	2008
	Book value	Book value	Market value	Market value
Debt instruments				
of which held to maturity	45.272	24.178	47.129	25.153
of which carried at the lower of cost or market	2.201		2.201	
Shares and similar securities and rights	19.035	26.817	19.685	26.817
of which qualified participations				
Precious metals	0	0	0	0
Fixed assets	0	0	0	0
Total financial investments	**66.508**	**50.995**	**69.015**	**51.970**
of which securities eligible for discount at the Swiss National Bank	*24.862*	*16.540*	*0*	*0*

Unconsolidated participations — AMOUNTS IN CHF/000	2009	2008
Participations		
With market value		
Without market value	52.698	49.172
Total participations	**52.698**	**49.172**

Information on participations — AMOUNTS IN CHF/000							
Main unconsolidated participations	Valuation method	Registered office	Activity	Currency	Share capital amount in/000	Equity interest in % 2009	Equity interest in % 2008
Cassa Lombarda SpA	Equity	Milano	Bank	EUR	13.500	33.94%	33.94%
Anthilia Capital Partners SpA	Equity	Milano	Finance Company	EUR	4.124	38.80%	38.80%
EIH Endurance Investments Holding SA	Equity	Lugano	Financial Holding Company	CHF	100	25.00%	25.00%
Euroceanica (UK) Limited	At Cost	Londra	Holding	USD	20.000	4.66%	9.31%
Rasini & C. SA	Equity	Lugano	Finance Company	CHF	336	30.06%	30.06%
Valuevalor SA	At Cost	Lugano	Finance Company	CHF	1.000	100.00%	100.00%
Planetarium Advisor SA	At Cost	Lussemburgo	Fund Advisor	EUR	75	100.00%	100.00%

Fixed assets and participations	AMOUNTS IN CHF/000			2009					
	Historical cost	Write-offs/ Accumulated depreciation	Book value as at Dec. 31, 2008	Reclassification	Additions	Disposals	Write-offs	Value adjustments for equity method valuation	Book value end of current year
Participations									
valued by “equity” method	28.993	6.556	35.549		8.152			487	44.188
Other	22.383	–8.760	13.623		387		5.500		8.510
Total participations	**51.376**	**–2.204**	**49.172**		**8.539**	**0**	**5.500**	**487**	**52.698**
Properties									
Building for bank use, Lugano	48.421	–15.808	32.613		261		1.355		31.519
Building for bank use, Zurich	9.187	–6.258	2.929		110		443		2.596
Building for bank use, Geneva	12.934	–6.222	6.712		26		427		6.311
Other	9.954	–3.492	6.462						6.462
Other fixed assets	38.269	–25.569	12.700		3.485		1.849		14.336
Total tangible fixed assets	**118.765**	**–57.349**	**61.416**		**3.882**	**0**	**4.074**	**0**	**61.224**
Assets under finance leases									
Other									
Intangible assets									
Goodwill	41.609	–33.783	7.826				4.803		3.023
Total intangible assets	**41.609**	**–33.783**	**7.826**		**0**	**0**	**4.803**	**0**	**3.023**

Fire insurance value	
Buildings for use by the Bank	**55.285**
Other fixed assets	**34.683**

Assets pledged or assigned to secure own liabilities and assets subject to ownership reservation — AMOUNTS IN CHF/000	2009	2008
Assets pledged	21.090	19.357
Own liabilities	0	0

Liabilities to own pension plans — AMOUNTS IN CHF/000	2009	2008
Total	**10.245**	**18.427**

The Bank’s employees are affiliated to an autonomous and independent social welfare institution, in accordance with legal requirements governing occupational pension schemes in Switzerland (LPP). The rules of the fund are based on those of a defined contributions scheme. 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.
To complete the occupational pension arrangements under the terms of federal law, a foundation of a social nature has been established – i.e. patronage – based pension funds, autonomous and independent. This foundation may provide assistance to employees.

Creation of reserves for employer contributions AMOUNTS IN CHF/000	Nominal value at Dec. 31, 2009	Usage waived as at Dec. 31, 2009	Other value adjustments as at Dec. 31, 2009	Balance sheet as at Dec. 31, 2009
Patronage pension institution	1.300	1.300	–	–
Pension institution	–	–	–	–
Total	**1.300**	**1.300**	**–**	**–**

Economic benefits/liabilities and costs of pensions AMOUNTS IN CHF/000	Surplus/ deficit as at Dec. 31, 2009	Company's economic benefit/ liability as at Dec. 31, 2009	Contributions offset during 2009	Contributions paid during the period and booked as personnel expenses	
				2009	2008
Patronage pension institution	2	–	–	–	–
Pension institution	605	–	–	2.450	2.596
Total	**607**	**–**	**–**	**2.450**	**2.596**

Value adjustments and provisions / Reserves for general banking risks AMOUNTS IN CHF/000	Balance end of preceding year (Dec. 31, 2008)	Specific usage and reversals	Change in definition of purpose (reclassifi-cations)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversal credited to income statement	Balance end of current year (Dec. 31, 2009)
Value adjustments and provisions for other business risks	12.453				763		13.216
Value adjustments and provisions for default risks (credit and country risks)	6.589	–552		35		–3.738	2.334
Provisions for deferred taxes	11.400					–3.000	8.400
Restructuring provisions	0						0
Other provisions	10.498	–1.049		–3	4.080	–1.600	11.926
Total value adjustments and provisions	**40.940**	**–1.601**	**0**	**32**	**4.843**	**–8.338**	**35.876**
Less: Value adjustments directly netted with assets							
Total value adjustments and provisions as per balance sheet	**40.940**						**35.876**
Reserves for general banking risks	**64.206**					**–3.443**	**60.763**

Breakdown of other assets and other liabilities AMOUNTS IN CHF/000	2009		2008	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	3.457	4.157	11.637	12.165
Indirect taxes	151	4.494	175	6.114
Other	578	117	1.692	21
Total	**4.186**	**8.768**	**13.504**	**18.300**

Statement of changes in shareholder's equity	AMOUNTS IN CHF/000
Shareholders' equity as at January 1, 2009	
Share capital	16.000
less unpaid share capital	0
Share capital paid-in	16.000
Consolidated reserves	246.868
Reserves for general banking risks	64.206
Group profit	24.496
Total shareholders' equity as at January 1, 2009 (before distribution of profit)	**351.570**
+ Allocation to profit carried forward	4.200
+ Capital increase	
+ Premium over par value	
– Currency translation differences	
– Dissolution of reserve for general banking risk	–3.443
– Dividends and other distributions of retained earnings brought forward	–26.700
+ Net profit for the year	21.356
Total shareholders' equity as at December 31, 2009 (before distribution of profit)	**346.983**
thereof:	
Share capital paid-in	16.000
Consolidated reserves	248.864
Reserves for general banking risks	60.763
Group profit	21.356

Eligible capital AMOUNTS IN CHF/000	31.12.2009	31.12.2008
Gross Tier 1 capital	**328.984**	**329.070**
of which minority interests		
of which innovative capital instruments		
– regulatory deductions	–47.476	–44.497
– other deductions from capital		
Eligible Tier 1 capital	**281.508**	**284.573**
+ eligible Tier 2 and Tier 3 capital		
– other deductions		
Total eligible capital	**281.508**	**284.573**

Required capital

AMOUNTS IN CHF/000	31.12.2009		31.12.2008	
Credit risk (Swiss standardised approach)		50.493		49.067
of which for equities held in the banking book	5.207		7.863	
Non – counter party – related risk (Swiss standardised approach)		17.192		16.740
Market risk (Swiss standardised approach)		6.123		9.202
of which for interest rate instruments	690		397	
of which for participations	88		37	
of which for foreign exchange, precious metals	5.345		8.769	
of which for commodities	–		–	
Operational risk (basic indicator approach)		13.534		13.770
Total minimum capital requirements		**87.342**		**88.779**
Ratio between total eligible capital and minimum capital requirements according to Swiss law		**322%**		**321%**

Maturity structure of current assets and borrowed funds

AMOUNTS IN CHF/000

	At sight	Redeemable by notice	Maturities within 3 months	within 3 to 12 months	within 1 to 5 years	over 5 years	Fixed	Total
Current assets								
Cash	98.120							98.120
Money market instruments	25		15.032					15.057
Due from banks	172.259	612.325	361.402	76.201				1.222.187
Due from customers	430	137.069	52.000	27.736	1.997			219.232
Mortgage loans			585	19.019	31.547			51.151
Securities and precious metals trading portfolios	12		552		3.930			4.494
Financial investments			20.035	4.251	25.543	16.679		66.508
Total current assets	**270.846**	**749.394**	**449.606**	**127.207**	**63.017**	**16.679**	**0**	**1.676.749**
Preceding year	*494.752*	*317.948*	*405.835*	*47.147*	*53.215*	*23.167*	*0*	*1.342.064*
Borrowed funds								
Money market instruments								0
Due to banks	11.222	53.235	21.427					85.884
Due to customers in savings and investment accounts		748						748
Due to customers, other	946.431	313.323	38.693	15.024				1.313.471
Cash bonds				50				50
Total borrowed funds	**957.653**	**367.306**	**60.120**	**15.074**	**0**	**0**	**0**	**1.400.153**
Preceding year	*598.550*	*348.071*	*88.601*	*25.593*	*50*	*0*	*0*	*1.060.865*

Amount due from and due to group companies as well as loans And exposure to members of the bank's governing bodies — AMOUNTS IN CHF/000	2009	2008
Due from group companies	30.753	34.578
Due to group companies	73.259	1.144
Due from bank's governing bodies	2.990	2.893

Loans granted to the management are awarded under the same conditions applied to bank staff.
Transactions with affiliated companies were carried out at arm's length and concern securities transactions, payments and treasury activities.

Analysis of assets and liabilities by Swiss and foreign origin — AMOUNTS IN CHF/000	2009		2008	
	Swiss	Foreign	Swiss	Foreign
Assets				
Cash	98.119	1	92.073	1
Money market instruments		15.057	341	39.333
Due from banks	54.205	1.167.982	50.043	791.242
Due from customers	53.975	165.257	54.067	220.354
Mortgage loans	51.151		43.075	
Securities and precious metals trading portfolios	1.332	3.162	371	169
Financial investments	18.553	47.955	20.416	30.579
Unconsolidated participations	3.610	49.088	3.123	46.049
Fixed assets	61.189	35	61.324	92
Intangible assets	623	2.400	1.600	6.226
Accrued income and prepaid expenses		4.172		5.600
Other assets	187	3.999	1.311	12.193
Total assets	**342.944**	**1.459.108**	**327.744**	**1.151.838**
Liabilities and shareholders' equity				
Due to banks	11.228	74.656	36.010	24.044
Due to customers in savings and deposit accounts	614	134	849	187
Due to customers, other	273.998	1.039.473	178.890	820.835
Cash bonds	50		50	
Accrued expenses and deferred income	519	9.753	2.240	5.668
Other liabilites	4.494	4.274	5.708	12.591
Value adjustments and provisions	35.876		40.940	
Reserves for general banking risks	60.763		64.206	
Share capital	16.000		16.000	
Consolidated reserves	248.864		246.868	
Group profit	21.356		24.496	
Total liabilities and shareholders' equity	**673.762**	**1.128.290**	**616.257**	**863.325**

Geographical analysis of assets — AMOUNTS IN CHF/000	2009		2008	
Assets		%		%
Italy	197.693	10.97	127.257	8,60
Other OECD countries	1.171.514	65.01	862.784	58,31
Other countries in America (non-members of OECD)	54.800	3.04	85.024	5,75
Other countries	35.099	1.95	76.774	5,19
Total foreign assets	**1.459.106**	**80.97**	**1.151.839**	**77,85**
Switzerland	342.946	19.03	327.743	22,15
Total assets	**1.802.052**	**100.00**	**1.479.582**	**100,00**

Breakdown of assets and liabilities by currencies	CURRENCIES (equivalent in CHF/000)				
	CHF	USD	EUR	Other	Total
Assets					
Liquid assets	96.731	104	1.212	73	98.120
Money market instruments		309	14.723	25	15.057
Due from banks	199.092	305.525	619.721	97.849	1.222.187
Due from customers	34.263	26.836	138.735	19.398	219.232
Mortgage loans	51.151				51.151
Securities and precious metals trading portfolios	1.320	2.258	904	12	4.494
Financial investments	45.272	206	21.030		66.508
Unconsolidated participations	3.610	7.000	42.088		52.698
Tangible fixed assets	61.224				61.224
Intangible assets	623		2.400		3.023
Accrued income and prepaid expenses	4.172				4.172
Other assets	320	2.666	981	219	4.186
Total assets	**497.778**	**344.904**	**841.794**	**117.576**	**1.802.052**
Forward contracts	9.287	58.157	60.821	17.710	145.975
Long position	**507.065**	**403.061**	**902.615**	**135.286**	**1.948.027**
Long position preceding year	*496.419*	*410.711*	*831.635*	*60.302*	*1.799.067*
Liabilities and shareholders' equity					
Due to banks	470	13.309	9.852	62.253	85.884
Due to customers in savings and deposit accounts	748				748
Due to customers, other	149.905	321.653	799.180	42.733	1.313.471
Cash bonds	50				50
Accrued expenses and deferred incomes	10.272				10.272
Other liabilities	5.272	2.110	1.277	109	8.768
Value adjustments and provisions	34.461	1.415			35.876
Reserves for general banking risks	60.763				60.763
Share capital	16.000				16.000
Consolidated reserves	248.864				248.864
Group profit	21.356				21.356
Total liabilities	**548.161**	**338.487**	**810.309**	**105.095**	**1.802.052**
Forward contracts	14.654	57.462	43.510	30.079	145.705
Short position	**562.815**	**395.949**	**853.819**	**135.174**	**1.947.757**
Short position preceding year	*571.729*	*398.042*	*768.253*	*60.758*	*1.798.782*
Net long (short) position	**–55.750**	**7.112**	**48.796**	**112**	**270**
Net long (short) position preceding year	*–75.310*	*12.669*	*63.382*	*–456*	*285*

4. Information on consolidated off-balance sheet transactions

Analysis of contingent liabilities (AMOUNTS IN CHF/000)	2009	2008	CHANGE
Payment guarantees and similar instruments	51.975	58.512	–6.537
Performance guarantees and similar instruments	807	682	+125
Irrevocable commitments under documentary credits	16.636	17.347	–711
Other contingent liabilities			
Total	**69.418**	**76.541**	**–7.123**

Derivative instruments (AMOUNTS IN CHF/000)	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate derivatives						
Forward contracts FRAs and IRS					878	38.320
Futures	43	134	16.056			
Foreign exchange derivatives						
Forward contracts	3.382	3.112	145.975			
Options (OTC)	32	32	162			
Equity/Index derivatives						
Options (OTC)	368	368	6.320			
Total	**3.825**	**3.646**	**168.513**	**0**	**878**	**38.320**
Preceding year	*12.590*	*12.383*	*347.261*	*0*	*734*	*23.662*

Total after impact of netting contracts:	Positive replacement value (cumulative)	Negative replacement value (cumulative)
Current year	3.825	4.524
Preceding year	*12.590*	*13.117*

Analysis of fiduciary transactions (AMOUNTS IN CHF/000)	2009	2008	CHANGE
Deposits with third-party banks	701.976	1.206.358	–504.382
Loans and other financial transactions	33.720	41.549	–7.829
Total	**735.696**	**1.247.907**	**–512.211**

Clients' assets (AMOUNTS IN CHF/000)	2009	2008	CHANGE
Held in investments funds managed by the bank	581.256	529.483	51.773
Under investment mandate	1.250.477	970.041	280.436
Other	4.146.894	5.100.452	–953.558
Total clients' assets (including double-counted assets)	**5.978.627**	**6.599.976**	**–621.349**
of which double-counted	421.749	430.177	–8.428
Net deposits (withdrawals)	–1.005.999	254.015	–1.260.014

Assets held purely for custody purposes are not included in this table. These are understood to be assets in respect of which the bank only provides a custody and encashment service, without providing any additional services.
The net contributions/withdrawals are calculated on the basis of actual movements of customer funds and/or securities in and/or out of the accounts. Variations due to market prices (securities and currencies), interest and dividends, are not considered to be contributions or withdrawals.

5. Information on the consolidated income statement

Analysis of results from trading operations AMOUNTS IN CHF/000	2009	2008	CHANGE
Foreign exchange and banknotes	9.341	7.356	+1.985
Precious metals	253	147	+106
Securities	8.121	3.371	+4.750
Other	122	-524	+646
Total trading operations	**17.837**	**10.350**	**+7.487**

Analysis of personnel expenses AMOUNTS IN CHF/000	2009	2008	CHANGE
Salaries	28.843	27.943	+900
Social security contributions	5.195	4.986	+209
Other personnel expenses	1.182	1.383	–201
Total personnel expenses	**35.220**	**34.312**	**+908**

Analysis of other operating expenses AMOUNTS IN CHF/000	2009	2008	CHANGE
Occupancy expenses	1.556	1.483	+73
Maintenance costs of computers, telecommunications, machines, furniture, vehicles, other facilities and equipment	1.672	1.655	+17
Other office expenses	7.584	7.392	+192
Total operating expenses	**10.812**	**10.530**	**+282**

Operating profit by location AMOUNTS IN CHF/000	2009		2008	
	Swiss	Foreign	Swiss	Foreign
Net interest income	11.010	2.065	21.455	2.843
Net fee and commission income	43.509	1.235	50.126	1.491
Net income from trading operations	17.709	128	10.858	–507
Other income from ordinary activities	2.919	–6	–1.901	881
Operating income	**75.147**	**3.422**	**80.538**	**4.708**
Personnel expenses	–34.499	–721	–33.652	–660
General administrative expenses	–10.336	–476	–9.983	–547
Operating expenses	**–44.835**	**–1.197**	**–43.635**	**–1.207**
Operating profit	**30.312**	**2.225**	**36.903**	**3.501**

Extraordinary revenues and expenses

Extraordinary income mainly comprised the dissolution of provisions no longer financially necessary for CHF 8,3 million. Reserves for general banking risks totalling CHF 3,5 million were also released.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting
of PKB Privatbank AG, Lugano

As statutory auditor, we have audited the accompanying consolidated financial statements of PKB Privatbank SA, which comprise the balance sheet, income statement, cash flow statement and notes, on pages 30 to 49, for the year ended 31 December 2009.

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with 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 Over-sight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

Lugano, March 26th, 2010
Ernst & Young SA

Mario Mosca	Enza Luongo
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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