

PKB PRIVATBANK AG

2008 ANNUAL REPORT 51ST YEAR OF ACTIVITY

Board of Directors	Patry Jean ¹⁾	Veyrier (GE)	<i>Chairman</i>
	Jesi Ferrari Maurizio ¹⁾²⁾	Lugano (TI)	<i>Vice-Chairman</i>
	Zari Malacrida Fernando ¹⁾	Gentilino (TI)	<i>Vice-Chairman</i>
	Delcò Edio ³⁾	Taverne-Torricella (TI)	(from April 22, 2009)
	Fontana Benedetto	Prato Leventina (TI)	
	Hauser Dieter ²⁾	Zumikon (ZH)	
	Rochat Jean-Philippe ²⁾	Épalinges (VD)	
	Spadafora Giuseppe	Milano (I)	
	Trabaldo Togna Massimo	Milano (I)	

Secretary	Corti Emilio ³⁾	Lugano (TI)
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Internal Audit	Treichler Sandro	<i>First Internal Auditor</i>
	Pecorone Diego	<i>Internal Auditor</i>

Statutory Auditors Group Auditors	Ernst & Young SA
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General Management	Trabaldo Togna Umberto	<i>President</i>
	Coda Nunziantie Ferdinando	<i>General Manager</i>
	Soncini Luca	<i>General Manager</i>
	Borsetti Giovanni	<i>Executive Vice President</i>
	Tonella Enrico	<i>Executive Vice President</i>

¹⁾ Members of the Executive Committee

²⁾ Members of the Audit Committee

³⁾ Following the decisions of the Shareholders' Meeting and of the Board of Directors of April 22, 2009

Defendente Ferrari

Active in western Piedmont
from 1509 to 1535

Saint Jerome in Penance

Tempera and oil on panel
37.9 x 62.8 cm

The extensive repainting that had obscured much of the surface of the original work was removed in a careful and painstaking restoration carried out by Carlotta Beccaria in 2008; the compact and varnished layer of the original painting re-emerged, revealing a number of precious, minute details, such as the golden lighting effects applied on the rocks and on the tree in the foreground on the right; some small gaps, a portion on the lower hem of the saint's red cloak and the other in the centre of the right-hand edge of the panel, do not detract from the pleasing appearance of this painting, whose dynamic spectrum of colours has been restored.

The repainting had also hidden the protective edges of the frame on the long sides of the panel, along which much of the original gilding has re-emerged; the work has been reinforced on the back by filling in the cracks. In its current state, the painting clearly shows that it was originally part of the predella of an altar piece.

The panel depicts Saint Jerome in a rugged landscape made up of rocks, a dried-out tree and bushes, with a view of a town in the background, with ruined and fantastic buildings intended to evoke classical architecture. The reclusive saint is painted in the company of a lion curled up meekly at his feet (according to the legend, the saint tamed it by heeling one of its paws), while striking his chest before a crucifix hung from the branch of a tree.

The vigorous and exalted manner in which the saint is mortifying his body contrasts with the frail appearance of the figure: it has an illustrious precedent in Leonardo da Vinci's *Saint Jerome*, today housed in the Vatican Picture Gallery, which was started but left unfinished by the Tuscan master in the years following his move from Florence to Milan (1482).

The reference to Da Vinci's idea is probably known through derivations or ancient copies (although the history of the origin of the Vatican panel does not date back beyond 1803). In this case, it is of considerable interest; in fact, the painting reveals the characteristic initials of Piedmont artist Defendente Ferrari, whose prolific production rarely shows explicit references to the works of Italian Renaissance masters (the copy of the *Madonna d'Orléans* by Raffaello, Amsterdam, Rijksmuseum is dated 1526). The free manner, full of remorse, with which the painter produced this work suggests that it must date back to when he had reached full maturity, to the third decade of the sixteenth century, one of the periods in which he was most active.



The exuberance of the landscape and the ease with which the figure is rendered suggest a comparison with the small triptych of the *Adoration of the Magi* (1523, Turin, Sabauda Gallery) and with other paintings dating back to the same period: from *Pietà* at the Spiridon in Rome-Paris¹, which recently re-emerged on the antique market², to *Saint Jerome* belonging to Turin's Civic Museum of Ancient Art (1520, inv. 398); in an older work of the same subject, also in Turin's Civic Museum of Ancient Art (inv. 210), the saint is bowing down before a crucifix hung on a tree branch, which as a counterpart has an identical design to our work. The date of the powerful polyptych of Sant'Antonio di Ranverso (1530-31), in which Defendente Ferrari seems to have finally yielded to the advance of the "modern way" constitutes an insuperable chronological barrier for the work examined here.

¹ G. Romano, in *Restorations and new acquisitions*, sp. cat., Turin, Sabauda gallery, 1975

² New York, Sotheby's, 25 January 2008, Lot 36



Dear Shareholders,

The crisis on the financial markets, the first signs of which had already emerged in the fourth quarter of 2007, showed its full power in 2008, reaching levels that even generated fears for the collapse of the entire financial system. The consequences of the worst crisis in the post-war period are sadly well-known, and range from the collapse of Lehman Brothers, which triggered an unprecedented systemic crisis, to the emergency takeover of other banks, and the massive interventions and nationalisations by governments and central banks. Unfortunately, it is still difficult to see the situation returning to normal. In fact, the news that reaches us on a daily basis suggests that 2009 will be just as difficult as the previous year.

Your Bank, remaining true to its traditional policy of prudence, has acted promptly to shield itself as much as possible from the international turbulence. The Executive Board, with the full support of the Board of Directors, has consequently adopted a series of measures aimed at protecting the assets of our clients and of the bank itself, favouring capital protection over short-term profitability. In particular, in the last quarter of the year under review, special attention was paid to counterparties, with daily valuations and decisions aimed at minimising risks. In addition, the customer loans portfolio has been – and still is – constantly monitored, reducing or eliminating where necessary positions potentially at risk.

Despite the grim outlook, the excellent asset and liquidity situation at PKB Privatbank AG has enabled it to pursue some strategic, medium-term projects, including its objective of increasing its presence on the domestic market. Against this backdrop, in 2008, we began the process of opening a branch in Bellinzona, which will be fully operational from the beginning of spring 2009 with a staff of five, in Viale Stazione.

Your Bank celebrated its fiftieth anniversary in a fitting manner, with a series of high-level events that involved staff, the authorities and the public, and which were a great success. At the end of the year, Edio Delcò, General Manager, took early on retirement leaving the operational management of the bank. At the shareholders' meeting of 22 April 2009, Mr. Delcò will be called upon to join the Board of Directors, which will then be able to count upon his great experience. The functions carried out to date by Mr Delcò were allocated to other members of the Executive Management, in particular, with the merging of the functions of Chief Risk Officer and Chief Financial Officer, entrusted to Luca Soncini, General Manager. Taking the above said into account, the results can be considered satisfactory. After a prudential provisions policy, net profit was CHF 26.8 million, a decrease of 19.5% compared to 2007. The various items that make up the result are set out in detail in the subsequent sections of this report. The increase in costs is perfectly in line with the budget, and is mainly attributable to investment in new human resources, indispensable for the Bank's future success.

Finally, we can say that, despite the serious uncertainty that hangs over the markets and the international economy, your Bank, with its significant shareholders' equity (Tier 1 ratio at 26%) and high degree of professionalism among its staff, is quietly optimistic that it will be able to meet the great challenges of the near future.

We would like to warmly thank our clients for the trust in the Bank that they have demonstrated. Our thanks also go to the management and all the staff for their great commitment and excellent work.

For the Board of Directors
Chairman
Jean Patry

Members of the General Management

Senior Vice Presidents

Bernasconi Florio
Berti Roberto
Bianchi Ermanno
Corti Emilio
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
Bonacina Paolo
Ceribelli Lucio
Grassi René
Luchetti Andrea
Nesti Vasco
Pisciotta Antonino
Rickenbach Giovanni
Spannagel Rolf
Talleri Marco

Vice Presidents

Dosi Delfini Nicolò
Duarte Villela Heitor
Kundert Hans
Fumagalli Vittorio
Maltese Stefano
Marchesi Mauro
Marcotullio Stefano
Pedrotti Roberto
Petrucci Pierluigi
Porter Nicholas
Radaelli Luca
Reichlin Carlo
Ricci Renzo
Rossi-Pedrucci 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

HIGHLIGHTS – KEY FIGURES AS AT DECEMBER 31, 2008

	AMOUNTS IN CHF	PKB PRIVATBANK AG
Gross profit		40.804.822
Depreciation, value adjustments, provisions		16.202.614
Net income		26.807.705
<i>of which proposed dividend</i>		<i>22.500.000</i>
Shareholders' equity as per balance sheet		255.939.333
Tier 1 ratio		26%
Number of employees		174

COMMENTS ON THE BALANCE SHEET

Balance sheet total		
		As at December 31, 2008 total assets amounted to CHF 1.175,9 million against liabilities of CHF 897,5 million. Shareholders' equity, including net profit for the year, therefore totalled CHF 278,4 million. The increase in the balance sheet total with respect to the previous year was CHF 216,7 million, or 22,6%.
Assets		
Liquid assets		This item includes cash plus clearing and postal account balances. The total of CHF 92,0 million is well above the legal requirement for primary liquidity.
Due from banks		Amounts held with banks were increased by CHF 215,3 million (+60,1%) from CHF 358,2 million to CHF 573,5 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 assets. These are funds for CHF 571,9 million placed with major banks in OECD countries. Time deposits accounted for CHF 171,7 million, CHF 170,9 million of them due within 90 days, while sight deposits amounted to CHF 401,8 million.
Due from customers		Loans to customers registered a decrease of 19,3% from CHF 386,2 million to CHF 311,4 million, while the average exposure to debtors decreased by 7,7% compared to the previous year. As at December 31, 2008, secured loans represented 94,8% of the total, compared to the 96% at December 31, 2007.
Securities and precious metals trading portfolios		The balance sheet value of this item declined from CHF 3,4 million at December 31, 2007 to CHF 0,5 million as at December 31, 2008. Of this amount, CHF 0,3 million consists of fixed income securities.
Financial Investments		As at December 31, 2008 financial investments totalled CHF 48,9 million against CHF 30,8 million the preceding year (+58,8%). Investments in funds increased to CHF 26,8 million (CHF 11,3 million at December 31, 2007). Fixed income securities were CHF 22,1 million (CHF 19,5 million at December 31, 2007), of which CHF 19,3 million pledged in favour of correspondent banks (CHF 12,5 million at December 31, 2007).
Participations		The bank holds the entire share capital of PKB Privatbank Ltd, St. John's, Antigua and of Valuevalor AG, Lugano. This entry also includes minority shareholdings in Cassa Lombarda Spa, Milan (33,9%), Anthilia Capital Partner Spa, Milano (38,8%), Euroceanica (UK) Ltd, London (9,3%), Rasini & C. SA, Lugano (30%) and EIH Endurance Investments Holding SA, Lugano (25%).

COMMENTS ON THE BALANCE SHEET

Assets	
Fixed assets	Decreased from CHF 37,7 million to CHF 36,4 million (-CHF 1,3 million, or 3,3%). CHF 35,0 million (CHF 33,8 as at December 31, 2007) represent tangible fixed assets that include the bank's buildings along with fixtures and furniture, any capitalised renovation works and computer equipment. Intangible fixed assets of CHF 1,4 million correspond to the not yet amortised goodwill resulting from the merger by incorporation with Banca Monte Paschi (Suisse) SA.
Other assets	Other assets decreased to CHF 11,8 million as at December 31, 2008 from CHF 12,1 million at the end of the preceding year. This item consists mainly in positive replacement values that amount to CHF 11,6 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 increased from CHF 147,7 million to CHF 194,5 million (+CHF 46,8 million, or 31,7%).
Due to customers	These increased by CHF 171,7 million, or 41,5% (CHF 584,7 million at 31 December 2008, CHF 413,0 million at 31 December 2007). 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 18,2 million as at December 31, 2008 (+ CHF 1,9 million, or 11,6%). It comprises predominantly the Bank's liability for indirect taxes (CHF 6,1 million) as well as negative replacement values on derivative instruments (CHF 12,1 million), representing its liability to counterparties.
Shareholders' equity	Shareholders' equity as per balance sheet totals CHF 251,6 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 255,9 million.

COMMENTS ON THE INCOME STATEMENT

Revenues	<p>Looking at the various items on the income statement, interest income was CHF 21,4 million, a decrease of 3,2% compared to the previous year, mainly due to the lower average exposure to customers and the significant reduction of US dollar interest rates during the year under review.</p> <p>All commission income items were lower: income from credit operations decreased by 23,1%, while that from securities trading and investment operations and commission income from other services declined by 5,6%. Overall, commission income declined from CHF 53,0 million in 2007 to CHF 50,5 million in 2008 (– CHF 2,5 million, or 4,7%). Trading income was CHF 10,8 million, against CHF 9,1 million in 2007 (+19,0%). Results from both currency trading (+15,3%) and securities trading (+31,1%) improved.</p> <p>Other ordinary income came in at CHF 1,5 million, compared to CHF 5,6 million the previous year (– CHF 4,1 million, or 73,2%). In 2008, financial investments registered a capital loss of EUR 3,2 million, of which CHF 2,9 million related to open positions, with lower income from equity investments of CHF 707,000.</p> <p>Total revenues can be broken down as follows:</p> <table style="margin-left: 20px;"> <tr> <td>25,5%</td> <td>from interest operations</td> </tr> <tr> <td>59,9%</td> <td>from commissions and services</td> </tr> <tr> <td>12,8%</td> <td>from trading activities</td> </tr> <tr> <td>1,8%</td> <td>from other ordinary income.</td> </tr> </table>	25,5%	from interest operations	59,9%	from commissions and services	12,8%	from trading activities	1,8%	from other ordinary income.
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1,8%	from other ordinary income.								
Expenses	<p>Personnel costs increased from CHF 30,3 million at 31 December 2007 to CHF 33,6 million at 31 December 2008 (+CHF 3,3 million, or 10,9%). Operating expenses remained almost unchanged, at CHF 9,9 million at 31 December 2008.</p>								
Gross profit	<p>The gross profit amounts to CHF 40,8 million, a decrease of CHF 8,9 million (–17,9%) compared to the 2007 financial year.</p>								
Depreciation on fixed assets	<p>The total amount of depreciation stands at CHF 10,7 million, increasing compared to the previous period (+ CHF 4,6 million). This figure includes write-offs on equity investments of CHF 4,0 million.</p>								
Provisions, valuation adjustments and losses	<p>In 2008, provisions totalled CHF 5,2 million for country, credit and other risks. Compared to 2007, this represented a lower expense of CHF 5,1 million.</p>								
Extraordinary income	<p>Of the total of CHF 9,7 million, CHF 2,8 million relates to the release of provisions no longer required, and CHF 5,9 million from the dissolution of the reserve for general banking risks.</p>								
Extraordinary expenses	<p>CHF 0,6 million is entirely due to a provision set up in view of future allocations to the “Fondazione PKB”.</p>								
Net profit for the year	<p>The net profit for the year amounts to CHF 26,8 million. Compared with the net profit of the previous year, CHF 33,3 million, it shows an increase of CHF 6,5 million or 19,5%.</p>								

BALANCE SHEET AS AT DECEMBER 31, 2008

Assets	AMOUNTS IN CHF	2008	2007
Liquid assets		92.073.476,79	25.681.013,97
Money market instruments		2.811.814,59	735.287,60
Due from banks		573.538.468,50	358.216.985,13
Due from customers		268.414.766,86	349.685.567,32
Mortgage loans		43.074.676,07	36.599.774,06
Securities and precious metals trading portfolios		540.466,06	3.421.667,94
Financial investments		48.989.733,52	30.843.905,89
Participations		93.244.495,28	97.259.495,28
Fixed assets		36.444.738,87	37.720.921,22
Accrued income and prepaid expenses		4.931.529,50	6.857.777,09
Other assets		11.871.612,40	12.195.442,33
Total assets		1.175.935.778,44	959.217.837,83
<i>Total subordinated assets</i>		<i>0,00</i>	<i>1.013.447,02</i>
<i>Total due from group companies and significant shareholders</i>		<i>0,00</i>	<i>63.042,11</i>

Liabilities	AMOUNTS IN CHF	2008	2007
Due to banks		194.590.687,55	147.734.763,99
Due to customers on savings and deposit accounts		1.035.787,59	622.415,63
Due to customers, other		583.657.258,05	412.435.634,28
Cash bonds		50.000,00	0,00
Accrued expenses and deferred income		7.352.007,19	12.248.983,31
Other liabilities		18.299.556,75	16.392.498,75
Value adjustments and provisions		29.550.147,46	24.241.913,02
Reserves for general banking risks		62.961.000,00	68.910.000,00
Share capital		16.000.000,00	16.000.000,00
General statutory reserves		33.300.000,00	30.800.000,00
Other reserves		202.000.000,00	196.200.000,00
Profit carried forward		331.628,85	328.678,85
Profit for the year		26.807.705,00	33.302.950,00
Total liabilities		1.175.935.778,44	959.217.837,83
<i>Total subordinated liabilities</i>		<i>0,00</i>	<i>0,00</i>
<i>Total due to group companies and significant shareholders</i>		<i>153.745.558,62</i>	<i>74.285.897,98</i>

OFF - BALANCE SHEET OPERATIONS

	AMOUNTS IN CHF	2008	2007
Contingent liabilities		76.531.362,50	119.402.787,74
Irrevocable commitments		7.656.742,00	1.660.321,00
Uncalled liabilities to pay in capital or additional capital on shares		5.499.682,31	8.559.411,94
Derivative instruments:			
Positive replacement value		12.589.848,68	15.032.482,04
Negative replacement value		13.116.988,44	13.685.959,57
Contract volume		370.923.063,65	899.259.909,74
Fiduciary transactions		1.486.418.318,73	2.064.397.364,09

INCOME STATEMENT

	AMOUNTS IN CHF	2008	2007
Results from interest activities			
Interest and discount income		30.197.015,79	30.446.716,09
Interest and dividend income on trading portfolios		63.429,44	14.769,06
Interest and dividend income on financial investments		691.923,76	676.467,04
Interest expense		-9.497.049,41	-8.955.837,79
Subtotal: Net interest income		21.455.319,58	22.182.114,40
Results from commission and service fee activities			
Commission income on lending activities		1.435.351,69	1.867.592,32
Commission income from securities and investment business		43.887.774,96	46.521.732,70
Other commission income		13.712.400,77	14.536.777,97
Commission expenses		-8.482.103,76	-9.870.670,72
Subtotal: Results from commission and service fee activities		50.553.423,66	53.055.432,27
Results from trading operations		10.857.575,74	9.120.712,29
Other ordinary results			
Income from disposal of financial investments		-283.254,79	174.771,65
Income from participations		4.040.000,00	4.747.519,26
Real estate income		805.596,40	809.456,60
Other ordinary income		0,00	191,24
Other ordinary expenses		-2.988.169,97	-35.001,93
Subtotal: Other ordinary results		1.574.171,64	5.696.936,82
Operating expenses			
Personnel expenses		-33.652.269,89	-30.361.790,86
General administrative expenses		-9.983.397,92	-9.954.103,41
Subtotal: Operating expenses		-43.635.667,81	-40.315.894,27
Gross profit		40.804.822,81	49.739.301,51
Depreciation and write-offs on fixed assets		-10.771.000,00	-6.132.707,81
Value adjustments, provisions and losses		-5.431.614,66	-318.130,90
Result before extraordinary items and taxes		24.602.208,15	43.288.462,80
Extraordinary income		9.787.793,65	429.471,80
Extraordinary expenses		-600.000,00	-549.011,60
Taxes		-6.982.296,80	-9.865.973,00
Net profit for the year		26.807.705,00	33.302.950,00

DISTRIBUTION OF PROFIT

Proposal of the Board of Directors	AMOUNTS IN CHF	2008	2007
Profit for the year		26.807.705,00	33.302.950,00
Profit carried forward from previous year		331.628,85	328.678,85
Disposable profit		27.139.333,85	33.631.628,85
Profit distribution			
– Allocation to general statutory reserves		2.200.000,00	2.500.000,00
– Allocation to other reserves		2.000.000,00	5.800.000,00
– Dividend distribution		22.500.000,00	25.000.000,00
Profit carried forward		439.333,85	331.628,85

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 2008 was 174 (2007: 164).

All of the essential bank's activities are followed internally, without recourse to outsourcing.

2. Accounting and valuation principles used

<i>Accounting and valuation principles</i>	The accounts are established by recording operations on the date they are transacted. The accounting principles set out below have been used.																					
<i>Foreing funds and currencies</i>	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 1,4924 (2007: 1,6617); USD 1,0610 (2007: 1,299).																					
<i>Credits and general liabilities</i>	Valuation at nominal value.																					
<i>Securities and precious metals trading portfolios</i>	Valuation at market price.																					
<i>Financial investments</i>	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.																					
<i>Participations</i>	Valuation at acquisition price, after charging any economically necessary depreciation.																					
<i>Fixed assets</i>	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:																					
	<table border="1"> <tbody> <tr> <td>Buildings</td> <td>50 years</td> <td>2,00 %</td> </tr> <tr> <td>Renovation expenses</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Equipment</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Furniture</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Business equipment and vehicles</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>IT Hardware/Software</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Intangibles</td> <td>5 years</td> <td>20,00 %</td> </tr> </tbody> </table>	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 %
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IT Hardware/Software	3 years	33,33 %																				
Intangibles	5 years	20,00 %																				
<i>Reserves for general banking risks</i>	Reserves for general banking risks include a taxed sum of CHF 28.500.000,00.																					
<i>Credit risks</i>	Where necessary, the bank makes appropriate provisions which are booked under «Value adjustments and provisions».																					
<i>Doubtful interest</i>	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.																					
<i>Revenues from trading activities</i>	These revenues are recorded in the income statement before deduction of refinancing expenses.																					
<i>Contingent liabilities, irrevocable commitments, payment commitments and guarantee liabilities</i>	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under «Value adjustments and provisions».																					

<i>Derivative financial instruments</i>	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.
<i>Principles applied in the identification of risk of loss and calculation of value adjustments</i>	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.
<i>Collateral assets for loans</i>	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.
<i>Risk management</i>	<p>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.</p> <p>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 this policy, during the year under review, the usual risk assessment process involving all sectors of the Bank was carried out.</p> <p>The aim of the risk assessment process is to identify all major risks, using the standard risk categories adopted by the banking sector, to define the methods for measuring them and to take action to mitigate them, if necessary, in order to remain within the risk profile set by the Bank's governing bodies.</p> <p>As regards structure and governance, the Board of Directors has an Audit Committee, comprising three members of the Board of Directors. One of its main objectives is to supervise the risk management processes.</p> <p>For its part, the General Management relies on the Risk Committee, which is responsible for the consolidation of risks at the Coparfin Group level, in accordance with consolidated supervision requirements.</p> <p>The Risk Committee meets at least once a quarter to review the quarterly risk reports, take any measures required and refer any necessary matters to the General Management, Audit Committee and Board of Directors.</p> <p>The Bank has risk management regulations which set out its overall approach to risk together with the organization, duties and authorities for all types of risks of significance at the PKB Group level. The regulations describe and set rules for risks of different types, namely credit, market, liquidity, operational and compliance. There are specific rules for the management, control and monitoring of each type of risk. Limits are set by the Board of Directors as a percentage of regulatory capital in order to limit potential losses.</p> <p>The level of coverage by regulatory capital is significantly higher than that stipulated by law.</p>
	<p><u><i>Credit risk</i></u></p> <p>Credit risk is defined as the possibility that a counterparty may be unable to meet its contractual obligations, thereby causing the Bank to incur a loss.</p> <p>The Risk Committee, in conjunction with the General Management, monitors credit risks under the sub-categories of counterparty, country and concentration risk.</p> <p>In this area, the Bank has adopted rigorous procedures and rules for the granting of credits, setting approval limits for the various functional and managerial levels.</p> <p>Counterparties are subject to a strict quantitative and qualitative assessment, and the principle of the segregation of roles is applied consistently. The same principles are also used in the analysis of collateral provided by clients and in assessing borrowers' debt-service capability.</p> <p>Risks on financial counterparties are monitored by a dedicated unit, and form part of the consolidated review by the Risk Committee.</p>

Market risk

Prior to developing this activity, appropriate organizational measures were taken, including the issuing of specific rules and the setting of appropriate limits in internal regulations approved by the Board of Directors.

On an operational level, IT procedures exist to monitor compliance with limits on a daily basis.

Risk consolidation is the responsibility of the Risk Committee.

The Bank operates mainly in the markets of OECD countries. Dealings are limited to the financial instruments permitted by market risk regulations and based on the necessary information and discretionary limits. Trading positions are marked to market daily.

For its trading portfolio, the bank participates actively as a Market Maker in the primary market for Swiss franc bonds. It is also active on the currency and bond markets, and in futures on the sovereign bonds of leading States.

Regulatory capital requirements for market risk are calculated using the standardized method.

Interest rate risk

The Bank has defined a policy for the management, control and monitoring of interest rate risk. It sets out the general framework for the management and control of interest rate risk, the duties and authorities of the units involved and their respective limits.

The majority of interest rate risk arises on Lombard loans, commercial loans, financial investments and customer deposits.

Interest rate risk is monitored primarily by the use of indicators showing the potential impact on the Bank's profitability and through the sensitivity of its economic capital. The balance sheet gap shows a concentration of traditional very short-term deposits and loans.

To cover interest rate risks, traditional derivative instruments (FRAs and IRS) are used.

Interest rate risk is also assessed using two historical crisis scenarios. These two scenarios reflect, the first a sudden collapse in rates and the second an unexpected surge. Risk indicators calculated using these two scenarios show an extremely limited exposure, owing to the relatively low level of rates in this period and to the structure of maturities in the balance sheet, which are concentrated at the very short end.

Liquidity and funding risk

The level of liquidity is monitored in accordance with legal requirements.

The Bank's funding is derived from its own resources, clients' deposits and the deposits of other financial intermediaries.

Operational risk

Operational risk includes all risks arising from systems, organization, processes and staff.

These risks are difficult to quantify and are, by definition, linked to the operational procedures and the resources involved. Key factors in mitigating operational risks include:

- **organization and processes:** the Bank ensures that it operates on a sound basis by applying principles of segregation of duties, definition of responsibilities and a system of internal control;
- **staff capabilities:** the Bank is determined that its staff should be skilled and able to execute its strategy and identify itself with its culture. This culture is reflected both in the management and staff and in the Group's approach to risk management;
- **IT infrastructure:** the Bank has internal and external capabilities enabling it to develop and maintain its IT system in-house;

- security: the Bank has implemented security measures with the particular aim of avoiding access by unauthorized persons to premises used for the storage of documents defined as sensitive. General Management drew up some considerable time ago a General Business Continuity Plan to ensure that the Bank would be able to continue uninterrupted operations, with a detailed analysis of ways of coping with the different scenarios studied, and identifying the minimum resources necessary for the continuity plan.

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	2008	2007
Securities pledged		19.357	12.502
Total		0	0

Liabilities to own pension plans	AMOUNTS IN CHF/000	2008	2007
Total		18.427	18.261

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, 2008	Usage waived as at Dec. 31, 2008	Other value adjustments as at Dec. 31, 2008	Balance sheet as at Dec. 31, 2008
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, 2008	Company's economic benefit/ liability as at Dec. 31, 2008	Contributions offset during 2008	Contributions paid during the period and booked as personnel expenses	
				2008	2007
Patronage pension institution with surplus	395	–	–		
Pension institution with deficit	–449	–	–	2.572	2.629
Total	–54	–	–	2.572	2.629

Value adjustments and provisions / Reserves for general banking risks								AMOUNTS IN CHF/000	
	Balance end of preceding year (Dec. 31, 2007)	Specific usage and reversals	Change in definition of purpose (reclassifications)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversals credited to income statement	Balance end of current year (Dec. 31, 2008)		
Value adjustments and provisions for default risks (credit and country risks)	5.725			18	3.620	-2.774	6.589		
Value adjustments and provisions for other business risks	11.920		-520				11.400		
Provisions for taxes and deferred taxes	7.117		191	-6	4.309	-50	11.561		
Total value adjustments and provisions	24.762						29.550		
Less: Value adjustments directly netted with assets	520								
Total value adjustments and provisions as per balance sheet	24.242						29.550		
Reserves for general banking risks	68.910					-5.949	62.961		

Breakdown of other assets and other liabilities	AMOUNTS IN CHF/000			
	2008		2007	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	11.638	12.165	12.003	10.656
Indirect taxes	175	6.114	164	5.675
Other	59	21	28	61
Total	11.872	18.300	12.195	16.392

Statement of changes in shareholders' equity	AMOUNTS IN CHF/000
Shareholders' equity as at January 1, 2008	
Share capital paid-in	16.000
General legal reserve	30.800
Other reserves	196.200
Reserves for general banking risks	68.910
Disposable profit	33.632
Total shareholders' equity as at January 1, 2008 (before distribution of profit)	345.542
+ Capital increase	
+ Premium over par value	
+ Other allocations	-5.949
- Dividend and other distributions of retained earnings brought forward	-25.000
+ Profit for the year	26.808
Total shareholders' equity as at December 31, 2008 (before distribution of profit)	341.401
Thereof:	
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

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	2008	2007
Amount receivable from group companies		34.578	35.898
Liabilities to group companies		1.144	5.710
Loans to bank's governing bodies		2.893	3.207

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			2008			2007		
	Total par value	Number of shares	Dividend bearing capital	Total par value	Numbers 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	16.000	16.000	16.000
Total capital	16.000	16.000	16.000	16.000	16.000	16.000	16.000	16.000	16.000

Significant shareholders	AMOUNTS IN CHF/000			
	2008		2007	
	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	2008	2007	CHANGE
Fiduciary transactions with third-party banks		1.175.256	1.674.118	-498.862
Fiduciary transactions with banks of the group and associated banks		269.613	341.804	-72.191
Loans and other financial transactions		41.549	48.475	-6.926
Total		1.486.418	2.064.397	-577.979

5. Information on the income statement

Breakdown of results from trading operations	AMOUNTS IN CHF/000	2008	2007	CHANGE
Foreign exchange and bank notes		7.900	6.973	+927
Precious metals		147	3	+144
Securities		3.334	2.147	+1.187
Other		-523	-2	-521
Total		10.858	9.121	+1.737

Further information on the income statement

Extraordinary income mainly comprised the dissolution of provisions no longer financially necessary for CHF 2,8 million. Reserves for general banking risks totalling CHF 5,9 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 2008.

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 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 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 27th, 2009

Ernst & Young SA

Mario Mosca
Licensed audit expert
(Auditor in charge)

Enza Luongo
Licensed audit expert

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated companies:

PKB Privatbank AG, Lugano

PKB Privatbank Limited, St. John's, Antigua (W.I.)

Parent company

Subsidiary company (100%)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2008

Assets	AMOUNTS IN CHF	2008	2007
Liquid assets		92.074.099,17	25.681.737,09
Money market instruments		39.673.841,92	735.287,60
Due from banks		841.285.013,56	815.424.534,12
Due from customers		274.420.601,80	356.275.603,34
Mortgage loans		43.074.676,07	36.599.774,06
Securities and precious metals trading portfolios		540.466,06	3.421.667,94
Financial investments		50.995.326,96	44.879.145,74
Unconsolidated participations		49.171.782,50	51.475.452,33
Tangible fixed assets		61.416.260,09	60.713.144,83
Intangible assets		7.826.409,75	13.649.243,39
Accrued income and prepaid expenses		5.599.533,74	9.193.360,94
Other assets		13.504.445,62	12.786.544,76
Total assets		1.479.582.457,24	1.430.835.496,14
<i>Total subordinated assets</i>		<i>0,00</i>	<i>1.013.447,02</i>
<i>Total due from group companies and significant shareholders</i>		<i>0,00</i>	<i>0,00</i>

Liabilities	AMOUNTS IN CHF	2008	2007
Due to banks		60.053.729,95	75.476.830,07
Due to customers on savings and deposit accounts		1.035.787,59	622.415,63
Due to customers, other		999.725.382,68	927.043.408,53
Cash bonds		50.000,00	0,00
Accrued expenses and deferred income		7.907.704,46	13.259.709,02
Other liabilities		18.299.556,75	20.076.616,34
Value adjustments and provisions		40.939.714,39	36.333.313,18
Reserves for general banking risks		64.206.367,67	70.155.367,67
Share capital		16.000.000,00	16.000.000,00
Consolidated reserves		246.867.835,69	235.583.063,77
Group profit		24.496.378,06	36.284.771,93
Total liabilities		1.479.582.457,24	1.430.835.496,14
<i>Total subordinated liabilities</i>		<i>0,00</i>	<i>0,00</i>
<i>Total due to group companies and significant shareholders</i>		<i>19.208.544,90</i>	<i>4.524.983,30</i>

CONSOLIDATED OFF-BALANCE SHEET OPERATIONS

	AMOUNTS IN CHF	2008	2007
Contingent liabilities		76.541.362,50	119.412.787,74
Irrevocable commitments		7.656.742,00	1.660.321,00
Uncalled liabilities to pay in capital or additional capital on shares		5.499.682,31	8.559.411,94
Derivative instruments:			
Positive replacement value		12.589.848,68	15.032.482,04
Negative replacement value		13.116.988,44	13.685.959,57
Contract volume		370.923.063,65	899.259.909,74
Fiduciary transactions		1.247.907.158,63	1.727.531.941,69

CONSOLIDATED INCOME STATEMENT

	AMOUNTS IN CHF	2008	2007
Results from interest activities			
Interest and discount income		43.945.994,37	49.577.812,56
Interest and dividend income on trading portfolios		63.596,21	14.806,68
Interest and dividend income on financial investments		761.922,26	741.158,93
Interest expense		-20.472.872,96	-25.692.920,67
Subtotal: Net interest income		24.298.639,88	24.640.857,50
Results from commission and service fee activities			
Commission income on lending activities		1.797.639,22	1.991.986,60
Commission income from securities and investment business		44.751.915,40	47.411.991,22
Other commission income		13.981.960,09	14.810.448,84
Commission expenses		-8.914.058,68	-10.137.163,56
Subtotal: Results from commission and service fee activities		51.617.456,03	54.077.263,10
Results from trading operations		10.350.339,31	9.513.751,93
Other ordinary results			
Income from disposal of financial investments		597.236,36	666.033,28
Income from unconsolidated participations		565.330,17	7.788.981,12
Real estate income		805.596,40	809.456,60
Other ordinary income		0,00	36.129,63
Other ordinary expenses		-2.988.169,97	-35.001,93
Subtotal: Other ordinary results		-1.020.007,04	9.265.598,70
Operating expenses			
Personnel expenses		-34.312.053,51	-30.999.077,37
General administrative expenses		-10.529.889,34	-10.396.183,50
Subtotal: Operating expenses		-44.841.942,85	-41.395.260,87
Gross profit		40.404.485,33	56.102.210,36
Depreciation and write-offs on fixed assets		-13.435.822,69	-10.467.858,61
Value adjustments, provisions and losses		-5.431.614,66	-318.130,90
Result before extraordinary items and taxes		21.537.047,98	45.316.220,85
Extraordinary income		9.787.793,65	464.584,39
Extraordinary expenses		-600.000,00	-569.115,62
Taxes		-6.228.463,57	-8.926.917,69
Group net profit		24.496.378,06	36.284.771,93

CONSOLIDATED CASH FLOW STATEMENT

	AMOUNTS IN CHF/000			
			2008	2007
	Sources of funds	Application of funds	Sources of funds	Application of funds
Cash flow from operating activities (internal sources)				
Net income	24.496		36.285	
Depreciation and write-offs on non-current assets	13.436		10.468	
Value adjustments and provisions	5.221		64	
Accrued income and prepaid expenses	3.594			3.461
Accrued expenses and deferred income		5.352	2.475	
Other items		12.123	345	
Dividend of preceding year		25.000		25.000
Balance	4.272		21.176	
Cash flow from investing activities				
Unconsolidated participations		525		10.576
Real estate		1.141		628
Other fixed assets		4.347		1.933
Intangible assets				
Balance		6.013		13.137
Cash flow from banking activities				
Medium and long-term transactions (more than 1 year)				
Due to banks				
Due to customers				
Cash bond issues	50			
Due from banks				
Due from customers		7.019		791
Financial investments		920	4.036	
Short-term transactions				
Due to banks		15.423	40.927	
Due to customers	73.095			7.350
Due from money market instruments		38.938		657
Due from banks		25.860		70.334
Due from customers	82.399		32.135	
Securities and precious metals portfolios	2.881			2.304
Other assets		718		4.456
Other liabilities		1.777	9.332	
Other items	363		745	
Liquidity				
Cash		66.392		9.322
Balance	1.741			8.039

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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 2008 was 180 (2007: 169). All of the bank's activities are followed internally, without recourse to outsourcing.

2. Accounting and valuation principles used

<i>Consolidation principles</i>	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.	
<i>Fully-consolidated participations</i>	The consolidated financial statements contain the annual accounts of PKB Privatbank AG, Lugano and PKB Privatbank Ltd, St. John's, Antigua.	
<i>Accounting and valuation principles</i>	The accounts are established by recording operations on the date they are transacted. The accounting principles set out below have been used.	
<i>Foreign funds and currencies</i>	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 1,4924 (2007: 1,6617); USD 1,0610 (2007: 1,1299).	
<i>Credits and general liabilities</i>	Valuation at nominal value.	
<i>Securities and precious metals trading portfolios</i>	Valuation at market price.	
<i>Financial investments</i>	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.	
<i>Non fully-consolidated participations</i>	Participation not exceeding 20%.	Valuation at acquisition price, after deduction of any economically necessary depreciation.
	Participation between 20% and 50%:	Valuation 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.	
<i>Tangible fixed assets</i>	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 %
<i>Reserves for general banking risks</i>	Reserves for general banking risks include a taxed sum of CHF 29.745.367,67.	

<i>Intangible assets</i>	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.
<i>Credit risks</i>	Where necessary, the bank makes appropriate provisions, which are booked under “Value adjustments and provisions”.
<i>Doubtful interest</i>	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.
<i>Revenues from trading activities</i>	These revenues are recorded in the income statement before deduction of refinancing expenses.
<i>Contingent liabilities, irrevocable commitments payment commitments and guarantee liabilities</i>	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under “Value adjustments and provisions”.
<i>Derivative financial instruments</i>	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.
<i>Principles applied in the identification of risk of loss and calculation of value adjustments</i>	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.
<i>Collateral assets for loans</i>	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.
<i>Risk management</i>	<p>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.</p> <p>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 this policy, during the year under review, the usual risk assessment process involving all sectors of the Bank was carried out.</p> <p>The aim of the risk assessment process is to identify all major risks, using the standard risk categories adopted by the banking sector, to define the methods for measuring them and to take action to mitigate them, if necessary, in order to remain within the risk profile limits set by the Bank’s governing bodies.</p> <p>As regards structure and governance, the Board of Directors has an Audit Committee, comprising three members of the Board of Directors. One of its main objectives is to supervise the risk management processes.</p> <p>For its part, the General Management relies on the Risk Committee, which is responsible for the consolidation of risks at the Coparfin Group level, in accordance with the requirements of supervisory control.</p> <p>The Risk Committee meets at least once a quarter to review the quarterly risk reports, take any measures required and refer any necessary matters to the General Management, Audit Committee and Board of Directors.</p> <p>The Bank has its risk management regulations which set out its overall approach to risk together with the organization, duties and authorities for all types of risks of significance at the PKB Group level. The regulations describe and set rules for risks of different types, namely credit, market, liquidity, operational and compliance. There are specific rules for the management, control and monitoring of each type of risk. Limits are set by the Board of Directors as a percentage of regulatory capital in order to limit potential losses.</p> <p>The level of coverage by regulatory capital is significantly higher than that stipulated by law.</p>

Credit risk

Credit risk is defined as the possibility that a counterparty may be unable to meet its contractual obligations, thereby causing the Bank to incur a loss.

The Risk Committee, in conjunction with the General Management, monitors credit risks under the sub-categories of counterparty, country and concentration risk.

In this area, the Bank has adopted rigorous procedures and rules for the granting of credits, setting approval limits for the various functional and managerial levels.

Counterparties are subject to a strict quantitative and qualitative assessment, and the principle of the segregation of roles is applied consistently. The same principles are also used in the analysis of collateral provided by clients and in assessing borrowers' debt-service capability.

Risks on financial counterparties are monitored by a dedicated unit, and form part of the consolidated review by the Risk Committee.

Market risk

Prior to developing this activity, appropriate organizational measures were taken, including the issuing of specific rules and the setting of appropriate limits in internal regulations approved by the Board of Directors.

On an operational level, IT procedures exist to monitor compliance with limits on a daily basis.

Risk consolidation is the responsibility of the Risk Committee.

The Bank operates mainly in the markets of OECD countries. Dealings are limited to the financial instruments permitted by market risk regulations and based on the necessary information and discretionary limits. Trading positions are marked to market daily.

For its trading portfolio, the bank participates actively as a Market Maker in the primary market for Swiss franc bonds. It is also active on the currency and bond markets, and in futures on the sovereign bonds of leading States.

Regulatory capital requirements for market risk are calculated using the standardized method.

Interest rate risk

The Bank has defined a policy for the management, control and monitoring of interest rate risk. It sets out the general framework for the management and control of interest rate risk, the duties and authorities of the units involved and their respective limits.

The majority of interest rate risk arises on Lombard loans, commercial loans, financial investments and customer deposits.

Interest rate risk is monitored primarily by the use of indicators showing the potential impact on the Bank's profitability and through the sensitivity of its economic capital.

The balance sheet gap shows a concentration of traditional very short-term deposits and loans.

To cover interest rate risks, traditional derivative instruments (FRAs and IRS) are used.

Interest rate risk is also assessed using two historical crisis scenarios. These two scenarios reflect, the first a sudden collapse in rates and the second an unexpected surge. Risk indicators calculated using these two scenarios show an extremely limited exposure, owing to the relatively low level of rates in this period and to the structure of maturities in the balance sheet, which are concentrated at the very short end.

Liquidity and funding risk

The level of liquidity is monitored in accordance with legal requirements.

The Bank's funding is derived from its own resources, clients' deposits and the deposits of other financial intermediaries.

Operational risk

Operational risk includes all risks arising from systems, organization, processes and staff.

These risks are difficult to quantify and are, by definition, linked to the operational procedures and the resources involved. Key factors in mitigating operational risks include:

- organization and processes: the Bank ensures that it operates on a sound basis by applying principles of segregation of duties, definition of responsibilities and a system of internal control;
- staff capabilities: the Bank is determined that its staff should be skilled and able to execute its strategy and identify itself with its culture. This culture is reflected both in the management and staff and in the Group's approach to risk management;
- IT infrastructure: the Bank has internal and external capabilities enabling it to develop and maintain its IT system in-house;
- security: the Bank has implemented security measures with the particular aim of avoiding access by unauthorized persons to premises used for the storage of documents defined as sensitive. General Management drew up some considerable time ago a General Business Continuity Plan to ensure that the Bank would be able to continue uninterrupted operations, with a detailed analysis of ways of coping with the different scenarios studied, and identifying the minimum resources necessary for the continuity plan.

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 consolidated balance sheet

Schedule of collateral for loans and off-balance sheet transactions	AMOUNTS IN CHF/000			TOTAL
	Mortgage collateral	Other collateral	Whitout collateral	
Loans				
Due from customers	2.724	255.642	16.055	274.421
Mortgage loans	43.075			43.075
residential	37.372			
commercial	4.959			
industrial	744			
Total loans	45.799	255.642	16.055	317.496
<i>Preceding year</i>	<i>38.032</i>	<i>339.461</i>	<i>15.383</i>	<i>392.876</i>
Off-balance sheet transactions				
Contingent liabilities	600	58.781	17.160	76.541
Irrevocable commitments		5.433	2.224	7.657
Liabilities for calls on shares and other equities		5.500		5.500
Credit commitments				
Total off-balance sheet transactions	600	69.714	19.384	89.698
<i>Preceding year</i>	<i>600</i>	<i>117.810</i>	<i>11.222</i>	<i>129.632</i>

Doubtful loans	AMOUNTS IN CHF/000			
	Gross amount	Estimated realizable value of collateral	Net amount	Provisions
Current year	7.054	3.678	3.376	3.384
<i>Preceding year</i>	<i>10.761</i>	<i>5.627</i>	<i>5.134</i>	<i>5.134</i>

Securities and precious metals trading portfolios	AMOUNTS IN CHF/000	
	2008	2007
Debt instruments		
Exchange listed	308	1.943
Unlisted		
Shares and similar securities and rights	229	1.477
Precious metals	3	2
Total securities and precious metals trading portfolios	540	3.422
<i>of which securities eligible for discount at the Swiss National Bank</i>	<i>308</i>	

Financial investments	AMOUNTS IN CHF/000		2008	2007	2008	2007
			Book value	Book value	Market value	Market value
Debt instruments						
of which own bonds and medium-term notes						
of which valued according to "accrual method"			24.178	22.508	25.153	22.469
of which valued at lower of cost or market value			26.817	22.371	26.817	26.267
Shares and similar securities and rights						
of which qualified participations						
Precious metals						
Total financial investments			50.995	44.879	51.970	48.736
<i>of which securities eligible for discount at the Swiss National Bank</i>			16.540	9.037		
Financial investments lent out						

Unconsolidated participations	AMOUNTS IN CHF/000		2008	2007
Participations				
With market value				
Without market value			49.172	51.475
Total participations			49.172	51.475

Information on participations	AMOUNTS IN CHF/000						
Main unconsolidated participations	Valuation method	Registered office	Activity	Currency	Share capital amount in/000	Equity interest in % 2008	Equity interest in % 2007
Cassa Lombarda SpA	Equity	Milano	Bank	EUR	9.000	33.94	30.00 ¹⁾
Anthilia Capital Partners SpA	Equity	Milano	Finance Company	EUR	4.124	38.80	40.00
EIH Endurance Investments Holding SA	Equity	Lugano	Financial Holding Company	CHF	100	25.00	25.00
Euroceanica (UK) Limited	At Cost	Londra	Financial Holding Company	USD	10.000	9.31	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

¹⁾ The increase from 30,0 to 33,94% is due to the incorporation of Agefin SpA in Cassa Lombarda SpA.

Fixed assets and participations	AMOUNTS IN CHF/000			2008					
	Historical cost	Write-offs/ Accumulated depreciation	Book value as at Dec. 31, 2007	Reclassification	Additions	Disposals	Write-offs	Value adjustments for equity method valuation	Book value end of current year
Participations									
valued by "equity" method	24.727	6.674	31.401		4.266		644	526	35.549
Other	22.383	-2.309	20.074			4.266	2.185		13.623
Total participations	47.110	4.365	51.475		4.266	4.266	2.829	526	49.172
Properties									
Building for bank use, Lugano	45.053	-14.296	30.757	2.357	1.011		1.512		32.613
Building for bank use, Zurich	9.092	-5.825	3.267		95		433		2.929
Building for bank use, Geneva	12.899	-5.804	7.095		35		418		6.712
Other	12.311	-3.492	8.819	-2.357					6.462
Other fixed assets	33.923	-23.148	10.775	0	4.346		2.421		12.700
Total tangible fixed assets	113.278	-52.565	60.713	0	5.487	0	4.784	0	61.416
Assets under finance leases									
Other									
Intangible assets									
Goodwill	41.609	-27.960	13.649				5.823		7.826
Total intangible assets	41.609	-27.960	13.649	0	0	0	5.823	0	7.826
Fire insurance value of real estate									54.532
Fire insurance value of other fixed assets									32.797

Assets pledged or assigned to secure own liabilities and assets subject to ownership reservation	AMOUNTS IN CHF/000	
	2008	2007
Assets pledged	19.357	12.502
Own liabilities	0	0
Liabilities to own pension plans	AMOUNTS IN CHF/000	
	2008	2007
Total	18.427	18.261

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 at Dec. 31, 2008	Usage waived as at Dec. 31, 2008	Other value adjustments as at Dec. 31, 2008	Balance sheet as at Dec. 31, 2008
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, 2007	Company's economic benefit/ liability as at Dec. 31, 2008	Contributions offset during 2008	Contributions paid during the period and booked as personnel expenses	
				2008	2007
Patronage pension institution with surplus	395	–	–		
Pension institution with deficit	–449	–	–	2.596	2.653
Total	–54	–	–	2.596	2.653

Value adjustments and provisions / Reserves for general banking risks	AMOUNTS IN CHF/000						
	Balance end of preceding year (Dec. 31, 2007)	Specific usage and reversals	Change in definition of purpose (reclassifications)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversal credited to income statement	Balance end of current year (Dec. 31, 2008)
Value adjustments and provisions for default risks (credit and country risks)	5.725			18	3.620	–2.774	6.589
Value adjustments and provisions for other business risks	11.920		–520				11.400
Provisions for deferred taxes	13.207					–754	12.453
Restructuring provisions	0						0
Other provisions	6.001		191	–5	4.361	–50	10.498
Total value adjustments and provisions	36.853	0	–329	13	7.981	–3.578	40.940
Less: Value adjustments directly netted with assets	520						
Total value adjustments and provisions as per balance sheet	36.333						40.940
Reserves for general banking risks	70.155					–5.949	64.206

Breakdown of other assets and other liabilities	AMOUNTS IN CHF/000			
	2008		2007	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	11.637	12.165	12.003	10.656
Indirect taxes	175	6.114	165	5.675
Other	1.692	21	619	3.746
Total	13.504	18.300	12.787	20.077

Statement of changes in shareholder's equity		AMOUNTS IN CHF/000
Shareholders' equity as at January 1, 2008		
Share capital paid-in		16.000
Consolidated reserves		235.583
Reserves for general banking risks		70.155
Group profit		36.285
Total shareholders' equity as at January 1, 2008 (before distribution of profit)		358.023
+ Capital increase		
+ Premium over par value		
Currency translation differences		
Dissolution of reserve for general banking risk		-5.949
- Dividends and other distributions of retained earnings brought forward		-25.000
+ Net profit for the year		24.496
Total shareholders' equity as at December 31, 2008 (before distribution of profit)		351.570
thereof:		
Share capital paid-in		16.000
Consolidated reserves		246.868
Reserves for general banking risks		64.206
Group profit		24.496
Eligible capital		AMOUNTS IN CHF/000
		31.12.2008
Gross Tier 1 capital		329.070
of which minority interests		
of which innovative capital instruments		
- regulatory deductions		-44.497
- other deductions from capital		
Eligible Tier 1 capital		284.573
+ eligible Tier 2 and Tier 3 capital		
- other deductions		
Total eligible capital		284.573
Required capital		AMOUNTS IN CHF/000
		31.12.2008
Credit risk (Swiss standardised approach)		49.067
of which for equities held in the banking book		7.863
Non - counter party - related risk (Swiss standardised approach)		16.740
Market risk (Swiss standardised approach)		9.202
of which for interest rate instruments		397
of which for participations		37
of which for foreign exchange, precious metals		8.769
of which for commodities		
Operational risk (basic indicator approach)		13.770
Total minimum capital requirements		88.779
Ratio between total eligible capital and minimum capital requirements according to Swiss law		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	92'074							92'074
Money market instruments	690		38.984					39.674
Due from banks	401.878	183.882	250.966	4.559				841.285
Due from customers	107	134.066	84.839	40.485	14.924			274.421
Mortgage loans				98	30.524	12.453		43.075
Securities and precious metals trading portfolios	3		229		308			540
Financial investments			30.817	2.005	7.459	10.714		50.995
Total current assets	494.752	317.948	405.835	47.147	53.215	23.167	0	1.342.064
<i>Preceding year</i>	<i>164.266</i>	<i>206.197</i>	<i>804.345</i>	<i>69.513</i>	<i>35.700</i>	<i>2.997</i>	<i>0</i>	<i>1.283.018</i>
Borrowed funds								
Money market instruments								
Due to banks	38.602		21.004	448				60.054
Due to customers in savings and investment accounts		1.036						1.036
Due to customers, other	559.948	347.035	67.597	25.145				999.725
Cash bonds					50			50
Total borrowed funds	598.550	348.071	88.601	25.593	50	0	0	1.060.865
<i>Preceding year</i>	<i>348.374</i>	<i>446.290</i>	<i>187.389</i>	<i>21.089</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1.003.142</i>

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	2008	2007
Due from group companies		34.578	35.898
Due to group companies		1.144	5.710
Due from bank's governing bodies		2.893	3.207

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		2008		2007	
	Swiss	Foreign	Swiss	Foreign	Swiss	Foreign
Assets						
Cash	92.073	1	25.681	1		
Money market instruments	341	39.333		735		
Due from banks	50.043	791.242	174.615	640.809		
Due from customers	54.067	220.354	67.221	289.055		
Mortgage loans	43.075		36.600			
Securities and precious metals trading portfolios	371	169	853	2.569		
Financial investments	20.416	30.579	12.500	32.379		
Unconsolidated participations	3.123	46.049	2.598	48.877		
Fixed assets	61.324	92	60.573	140		
Intangible assets	1.600	6.226	2.577	11.072		
Accrued income and prepaid expenses		5.600		9.193		
Other assets	1.311	12.193	193	12.594		
Total assets	327.744	1.151.838	383.411	1.047.424		
Liabilities and shareholders' equity						
Due to banks	36.010	24.044	36.504	38.973		
Due to customers in savings and deposit accounts	849	187	509	113		
Due to customers, other	178.890	820.835	210.476	716.567		
Cash bonds	50					
Accrued expenses and deferred income	2.240	5.668	6.189	7.071		
Other liabilities	5.708	12.591	8.946	11.131		
Value adjustments and provisions	40.940		36.333			
Reserves for general banking risks	64.206		70.155			
Share capital	16.000		16.000			
Consolidated reserves	246.868		235.583			
Group profit	24.496		36.285			
Total liabilities and shareholders' equity	616.257	863.325	656.980	773.855		

Geographical analysis of assets	AMOUNTS IN CHF/000		2008		2007	
Assets		%		%		%
Italy	127.257	8,60	186.012	13,00		
Other OECD countries	862.784	58,31	653.504	45,67		
Other countries in America (non-members of OECD)	85.024	5,75	110.768	7,74		
Other countries	76.774	5,19	97.140	6,79		
Total foreign assets	1.151.839	77,85	1.047.424	73,20		
Switzerland	327.743	22,15	383.411	26,80		
Total assets	1.479.582	100,00	1.430.835	100,00		

Breakdown of assets and liabilities by currencies	CURRENCIES (equivalent in CHF/000)				
	CHF	USD	EUR	Other	Total
Assets					
Liquid assets	90.923	72	1.015	64	92.074
Money market instruments	2	2.122	37.532	18	39.674
Due from banks	194.184	215.492	406.977	24.632	841.285
Due from customers	36.665	42.207	176.809	18.740	274.421
Mortgage loans	43.075				43.075
Securities and precious metals trading portfolios	367	93	76	4	540
Financial investments	28.093	1	22.901		50.995
Unconsolidated participations	3.123	12.500	33.549		49.172
Tangible fixed assets	61.416				61.416
Intangible assets	1.600		6.226		7.826
Accrued income and prepaid expenses	5.600				5.600
Other assets	11.843	563	1.077	21	13.504
Total assets	476.891	273.050	686.162	43.479	1.479.582
Forward contracts	19.528	137.661	145.473	16.823	319.485
Long position	496.419	410.711	831.635	60.302	1.799.067
<i>Long position preceding year</i>	<i>570.435</i>	<i>572.228</i>	<i>817.864</i>	<i>274.034</i>	<i>2.234.561</i>
Liabilities and shareholders' equity					
Due to banks	4.845	3.378	36.269	15.562	60.054
Due to customers in savings and deposit accounts	1.036				1.036
Due to customers, other	126.007	254.391	591.587	27.740	999.725
Cash bonds	50				50
Accrued expenses and deferred incomes	7.908				7.908
Other liabilities	17.692	8	599		18.299
Value adjustments and provisions	39.525	1.415			40.940
Reserves for general banking risks	64.206				64.206
Share capital	16.000				16.000
Consolidated reserves	246.868				246.868
Group profit	24.496				24.496
Total liabilities	548.633	259.192	628.455	43.302	1.479.582
Forward contracts	23.096	138.850	139.798	17.456	319.200
Short position	571.729	398.042	768.253	60.758	1.798.782
<i>Short position preceding year</i>	<i>656.936</i>	<i>557.352</i>	<i>745.505</i>	<i>273.489</i>	<i>2.233.282</i>
Net long (short) position	-75.310	12.669	63.382	-456	285
<i>Net long (short) position preceding year</i>	<i>-86.501</i>	<i>14.876</i>	<i>72.359</i>	<i>545</i>	<i>1.279</i>

4. Information on consolidated off-balance sheet transactions

Analysis of contingent liabilities	AMOUNTS IN CHF/000	2008	2007	CHANGE
Payment guarantees and similar instruments		58.512	96.496	-37.984
Performance guarantees and similar instruments		682		+682
Irrevocable commitments under documentary credits		17.347	22.917	-5.570
Other contingent liabilities				
Total		76.541	119.413	-42.872

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						734	23.662
Futures		34	112	12.114			
Foreign exchange derivatives							
Forward contracts		11.519	11.234	319.485			
Options (OTC)		43	43	50			
Precious Metals							
Options (OTC)							
Equity/Index derivatives							
Options (OTC)		952	952	15.410			
Other							
Options (OTC)		42	42	202			
Total		12.590	12.383	347.261	0	734	23.662
<i>Preceding year</i>		<i>14.822</i>	<i>13.543</i>	<i>841.735</i>	<i>210</i>	<i>143</i>	<i>57.525</i>
Total after impact of netting contracts:		Positive replacement value (cumulative)			Negative replacement value (cumulative)		
Current year		12.590			13.117		
<i>Preceding year</i>		<i>15.032</i>			<i>13.686</i>		

Analysis of fiduciary transactions	AMOUNTS IN CHF/000	2008	2007	CHANGE
Deposits with third-party banks		1.206.358	1.679.057	-472.699
Loans and other financial transactions		41.549	48.475	-6.926
Total		1.247.907	1.727.532	-479.625

Clients' assets	AMOUNTS IN CHF/000	2008	2007	CHANGE
Held in investments funds managed by the bank		529.483	484.776	44.707
Under investment mandate		970.039	1.132.652	-162.613
Other		5.100.454	5.963.556	-863.102
Total clients' assets (including double-counted assets)		6.599.976	7.580.984	-981.008
of which double-counted		-430.177	382.244	-812.421
Net deposits (withdrawals)		254.015	-180.253	434.268

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	2008	2007	CHANGE
Foreign exchange and bank notes		7.356	7.278	+78
Precious metals		147	3	+144
Securities		3.371	2.235	+1.136
Other		-524	-2	-522
Total trading operations		10.350	9.514	+836

Analysis of personnel expenses	AMOUNTS IN CHF/000	2008	2007	CHANGE
Salaries		27.943	24.771	+3.172
Social security contributions		4.986	4.756	+230
Other personnel expenses		1.383	1.472	-89
Total personnel expenses		34.312	30.999	+3.313

Analysis of other operating expenses	AMOUNTS IN CHF/000	2008	2007	CHANGE
Occupancy expenses		1.483	1.411	+72
Maintenance costs of computers, telecommunications, machines, furniture, vehicles, other facilities and equipment		1.655	1.385	+270
Other office expenses		7.392	7.600	-208
Total operating expenses		10.530	10.396	+134

Operating profit by location	AMOUNTS IN CHF/000		2008		2007	
	Swiss	Foreign	Swiss	Foreign	Swiss	Foreign
Net interest income	21.455	2.843	22.182	2.459		
Net fee and commission income	50.126	1.491	52.597	1.480		
Net income from trading operations	10.858	-507	9.121	393		
Other income from ordinary activities	-1.901	881	4.185	5.080		
Operating income	80.538	4.708	88.085	9.412		
Personnel expenses	-33.652	-660	-30.362	-637		
General administrative expenses	-9.983	-547	-9.954	-442		
Operating expenses	-43.635	-1.207	-40.316	-1.079		
Operating profit	36.903	3.501	47.769	8.333		

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 2008.

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 2008 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 Oversight 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 27th, 2009

Ernst & Young SA

Mario Mosca
Licensed audit expert
(Auditor in charge)

Enza Luongo
Licensed audit expert

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