



Annual Report 2009







# Annual Report of the Board of Directors and Executive Board on the 2009 Financial Year

## Foreword by the Board of Directors

### Positive Outcome to a Difficult Year.

IHAG Privatbank closed a year of extremes in the financial industry with a good result. Net profit rose again compared with the very pleasing 2008 figure. The financial markets experienced great turbulence, making only a timid recovery over the year. Against this backdrop, our Bank continued to benefit from considerable inflows of client assets. Our sound capital base, clear strategic orientation and continuity in our staff proved themselves once again to be major success factors. Over the past 60 years, this focus on fundamentals has made us a stable bank with a deep understanding of what our clients want and need. Reflecting on our jubilee year 2009, this is also how we will remain.

Despite the gradual stabilisation of the global financial industry and gains of over 20% on the equity markets, 2009 was anything but easy. The problems of the financial system impacted with full force on economic activity. This not only shattered investors' confidence in the banks, but also resulted in declining trading activity and greater demand for gold. Our long-standing experience, coupled with a defensive, long-term, and yet active investment strategy, enabled us to navigate safely through these stormy waters.

The operating climate for Swiss banks will never be the same again following events in the year under review. Our Bank is no different from any other in facing the major challenges of a tougher regulatory environment, debate about banking confidentiality, and client unease. That said, we are prepared for the changes that are to come. Our sound capital base, well-diversified income streams from the three Private Banking, Lending and Trading divisions, our experienced staff and our strict cost discipline put us in a strong position for the future.

We celebrated 60 years of IHAG Privatbank with a variety of events for clients and staff, as an expression of how much we value them.

The Board of Directors is extremely grateful that our clients continue to place their trust in IHAG Privatbank. This is something that gains even greater significance when times are hard. The Board continues to make every effort to do justice to their expectations, and to secure their support for the future. A great debt of thanks is also owed to IHAG Privatbank's staff, who have again displayed enormous professionalism and commitment in their work over the past year.

## A Lively Recovery Gone Stale

The past stock exchange year was characterised by two entirely contradictory market phases. Driven by fears of further bank collapses and the deteriorating economic outlook, the markets embarked on the year with a long phase of price corrections. It was early March before this downward spiral ended. By this point, however, most indices had already lost between a fifth (Nikkei -20%, Hang Seng -21%, SMI -22%) and a quarter (Dow Jones -25%, S&P 500 -25%, Dax -24%) of their value. US indices even touched new twelve-year lows, which was also interpreted as a vote of no-confidence in the new US administration. Thanks to government rescue packages for beleaguered banks, generous economic stimulus programmes (e.g. scrapping allowances and tax credits), record-low interest rates and "quantitative easing" flooding the capital markets with liquidity, by mid-May the markets had more than recovered their early-January levels.

After a phase of consolidation in the early summer, in which the majority of markets trended sideways, from mid-July to mid-October the markets again made strong gains in parallel with the return of brighter economic prospects. After that, the air became thinner and the markets struggled to gain further ground. Market volatility declined steadily over the course of the year, but still remained well above its long-term average overall. A striking factor here was that higher-risk asset classes, such as commodities and equities, profited more than most from markets awash with cash.

Viewed over the year as a whole, the countries that were least affected by the financial crisis and the debt burden turned in the best performances. Foremost among these were Brazil (+83%), Singapore (+65%) and Hong Kong (+52%). By contrast, price gains in the industrialised economies of the West were much more modest (SMI +18%, DAX 30 +24%, Dow Jones +19%, S&P 500 +24%, Nikkei +19%). The global economy's slow recovery, China's hunger for raw materials and plenty of liquidity in the system also produced marked price gains on commodities (gold +24%, copper +140%, silver +50%, oil +93%).

It was a mixed picture in the bond segment. Government paper remained highly volatile owing to ever-resurgent fears of inflation and unanswered questions about the solvency of certain over-indebted western states – this despite the steady narrowing of credit risk premiums on corporate bonds, and little movement at all in the yields on certain government bonds.

Given significant uncertainty about further recovery progress in the real economy, as well as the unresolved structural problems currently facing many industrialised countries, we expect the markets to remain volatile in 2010. Possible corrections might offer attractive opportunities on the equity front, however, since despite the crisis many companies are well positioned to emerge strengthened on the other side.

## Lending – Interest Rates at All-Time Lows

As impossible as it might have seemed at the beginning of last year, interest rates for small and medium durations fell significantly once again. Interest rates for long durations (over ten years) were the only ones to remain virtually unchanged. They trod water at an historically low level, albeit one much higher than rates for shorter durations.

Very short or long durations were favoured depending on the individual client's appetite for risk, and expectations for the future. Many clients profited from the virtually no-cost basis of the 1- to 3-month LIBOR, and generally paid only the lending margin. Other clients were already positioning themselves for the time when, driven by the money supply, inflation will send interest rates soaring. Only a small number of clients opted for variable durations or for durations of between two and five years.

Despite a difficult climate and aggressive competition, our interest business held up well during the reporting year.

Contrary to budget expectations, which assumed a sharp drop in lending, we have reduced this aspect of our business only very slightly. Countless opportunities and high levels of deposits prompted us to rethink. Although we are currently spoiled by the volumes of assets on our books, we do not believe that this situation will persist.

The great loyalty of our long-standing clientele remains undiminished, even though we do not offer low-cost mortgages. Our clients remain true to us because we continue to be a steadfast partner through good times and bad alike.

In granting mortgages, IHAG Privatbank concentrates on residential properties in the greater Zurich area. Commercial properties are financed only in selected cases. As in the past, our short decision-making paths and rapid loan approval process were key factors in the success of our lending business last year.

## Private Banking – New Assets Up More Than 20%

The challenging economic climate proved enormously demanding for our client advisors and for IHAG Privatbank itself. The hallmarks of our Bank's success are our long-term investment policy, our independence in choosing financial products, a generally conservative approach to investments and the fact that we really do know our clients well thanks to close relationships that, in some cases, have endured for decades. We have made a concerted effort to improve quality standards and staff training over time. Our client advisors are more than able to respond to continually changing requirements.

A further important milestone was the introduction of the IHAG advisory process. There has been a sea change in the asset management industry in recent years. Volatile markets have reminded us all that long-term investments may result in substantial losses, and that success on the often treacherous global financial markets increasingly demands skill and experience. IHAG Privatbank's advisory processes considers the needs of clients with different investment horizons, expectations as to return, and requirements with regard to capital preservation. With our structured process, the client can be assured that we will draw up the best possible solution for them. The FinFox computer software offers our advisors an excellent tool that raises the bar in personal, needs-based advice.

Thanks to our successful business model, our financial strength, independence and high quality of service we were able to expand our client base significantly during the year just ended. This produced a pleasing 20% increase in new assets in Private Banking.

### Trading – Well Over Budget

Shockwaves ran through the securities markets in the first quarter, resulting in considerable reticence on the part of clients. Confidence then began to return gradually as the year progressed, bringing with it an increase in willingness to take risks, and therefore higher trading volumes. Turnover in fixed-income instruments, in particular, was above-average. The bold exploitation of available opportunities meant that income from own-account trading was well over budget.

Treasury continued to face major challenges during the reporting year, in the form of very low short-term interest rates and a steep yield curve. Active balance sheet management and our correct forecasting of interest rate trends nonetheless generated extremely high income from Treasury activities. In this hectic environment, the Bank benefited enormously from the long-standing experience of our staff.

### IT/Organisation – Running Smoothly

In the first half of the year, work in the IT department focused on drawing up a business impact analysis and a business continuity strategy. This was followed in the second half by an energetic effort to put the measures defined in the BCM strategy into effect. A central logging and monitoring solution was introduced, and a redundant network connection was implemented using an IPSS via the backup computing centre as an additional guarantee of operational security. Despite much higher business volumes, productive operations continued to run very smoothly.

### Staff – Stability and Targeted Team Expansion

As at the end of the year, IHAG Privatbank had 97 staff, 23 of whom work part time.

As a small, full-service bank, our declared aim is to employ staff with a broad base of training and a sense of independent responsibility. This year, we took the opportunity to strengthen and make strategic additions to our teams. We count ourselves fortunate to have so many motivated and well-trained experts with the bank for so long. It is on them that the future success of our bank rests

## Annual Financial Statements for 2009 – Matching 2008's High Levels

With a reported net profit of CHF 14.6 million, the Bank's result is almost unchanged compared with 2008. Stable and sustainable growth is underscored by total income of CHF 49.2 million (2008: CHF 48.1 million) and an operating profit of CHF 21.4 million (2008: CHF 21.5 million).

Interest income comes to CHF 21.0 million and is thus approx. 5% lower than the previous year's figure of CHF 22.3 million. At the same time, total assets remained virtually unchanged at CHF 1.5 billion. Historically low interest rates completely eroded credit interest margins. While client assets under management rose to over CHF 1.1 billion, they contributed almost nothing to the interest result. This was offset only partly on the client lendings side, especially since lending volumes contracted slightly to around CHF 1 billion by the end of the year. The steep yield curve and occasionally excessive corporate spreads offered some attractive opportunities to enter the interbank market as part of the structural management of our balance sheet, and also to buy top-rated bonds and thus considerably improve our interest structure.

The subdued mood on the equity markets in the first few months of the year became brighter and brighter as the year went on. As a result the commission business, at CHF 17.8 million, very nearly matches the previous year's result of CHF 18.5 million. Extremely successful acquisition work meant that IHAG Privatbank was able to attract CHF 725 million in new client assets. Combined with the pleasing performance of invested assets, these higher volumes will impact positively on the commission business in the future.

Trading succeeded in raising 2008's excellent result of CHF 6.3 million by 11% to CHF 7 million. Trading in both foreign exchange and securities contribute to this gratifying result.

In addition to income from property, other ordinary income includes the CHF 1.2 million return on an infrastructure investment. Added to upward revaluations on certain financial investments, other ordinary income came to CHF 3.3 million – much higher than the CHF 1 million generated in the previous year.

Once again, we increased staff numbers slightly during the year under review, and had 87 full-time equivalents as at the end of 2009. As a result, both personnel expenses and other operating expenses were moderately higher than in the previous year. Operating expenses stood at CHF 27.7 million overall, corresponding to a 4% increase over 2008.

At CHF 2.3 million, depreciation on fixed assets was more or less the same as in previous years.

The current crisis has brought with it financial difficulties for certain borrowers. A further CHF 6.5 million in value adjustments had to be made on non-performing loans during the year under review. These were charged to the income statement, as was a CHF 6 million provision for client claims in relation to investment losses.

Extraordinary income is composed primarily of the write-back of other provisions of CHF 12.4 million, as well as tax rebates and CHF 0.5 million in income earned outside the reporting period.

## Board of Directors, Executive Board and Management

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### Board of Directors

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**Gratian Anda**  
Zurich

Chairman

**Peter Bretscher**  
Ebmingen

Member

**Dr. Susanne Riess-Passer**  
Innsbruck, Austria

Member

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### Executive Board as of March 2010

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**Dr. Heinz Stadler**

Chief Executive Officer

**Peter D. Rüegg**

Deputy Chief Executive Officer

**Jürg Bretscher**

Member

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### External Auditors

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**Deloitte Ltd.**  
Zurich

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### Internal Auditor

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**Marcel Ming**  
**AudiBa Wirtschaftsberatung AG**, Bubikon  
formerly **Guido Jäger Treuhand AG**, Bubikon

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Management as of March 2010

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<b>Harry Broger</b>	Senior Vice President	<b>Marco Gerber</b>	Vice President
<b>Hanspeter Schudel</b>	Senior Vice President	<b>Rolf Hälg</b>	Vice President
<b>Daniel Albisser</b>	First Vice President	<b>Lene Jørgensen</b>	Vice President
<b>Alice Fritz</b>	First Vice President	<b>Christoph Kaufmann</b>	Vice President
<b>Dr. Michael Gubser</b>	First Vice President	<b>Daniel Kobler</b>	Vice President
<b>Daniel Junker</b>	First Vice President	<b>Richard Ott</b>	Vice President
<b>Sandrine Koller</b>	First Vice President	<b>Vera Quast</b>	Vice President
<b>Andreas Krattiger</b>	First Vice President	<b>Monica Rohrer</b>	Vice President
<b>Aurel F. J. Lüthi</b>	First Vice President	<b>Katharina Schär</b>	Vice President
<b>Adrian Nussbaumer</b>	First Vice President	<b>Susanna Schellenbaum</b>	Vice President
<b>Jürg Ragaz</b>	First Vice President	<b>Michael Schiller</b>	Vice President
<b>Marco Sinkwitz</b>	First Vice President	<b>Marcel Spring</b>	Vice President
<b>Luca Angelastri</b>	Vice President	<b>Bruno Springer</b>	Vice President
<b>Stefan Becker</b>	Vice President	<b>Walter Wenger</b>	Vice President
<b>Per Classon</b>	Vice President	<b>Matthias Wullschleger</b>	Vice President
<b>Roger Egg</b>	Vice President		
<b>Patrick Frei</b>	Vice President		

# Facts & Figures

## Key Data

Income Statement	2009	2008
	CHF 000s	CHF 000s
Operating profit	21 389	21 567
Net profit	14 654	14 568
Income from commission business and services	17 787	18 514
Net income from trading operations	6 978	6 296
Net interest income	21 050	22 324
Operating expenses	-27 744	-26 570
Balance Sheet	2009	2008
	CHF 000s	CHF 000s
Shareholders' equity	167 444	164 790
Total assets	1 501 134	1 531 467
Number of personnel	97	93

# Proposal of the Board of Directors to the General Meeting of 28 April 2010

We should like to propose to the General Meeting that:

1. The Annual Report, Balance Sheet and Income Statement for 2009 be approved.
2. The Board of Directors and Executive Board be discharged from responsibility for the 2009 business operations of the Bank.
3. The net profit of CHF 14.654 million and the retained earnings of CHF 17.222 million brought forward from the previous year, which together total CHF 31.876 million, be appropriated as follows:

	CHF 000s
a) Dividend on share capital	14 000
b) Allocation to the general statutory reserve	1 150
c) Allocation to other reserves	0
d) To be carried forward to next year	16 726
<b>Total balance profit</b>	<b>31 876</b>

4. Deloitte Ltd., Zurich, be reappointed as auditors.

Balance Sheet as at 31 December 2009  
(before appropriation of profit)

Assets	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Liquid assets	102 178	96 985
Due from banks	254 090	285 525
Due from clients	541 997	614 407
Mortgages	463 980	460 219
Trading positions in securities and precious metals	4 180	4 425
Fixed financial assets	113 543	26 535
Permanent participations	1 237	1 105
Fixed assets	11 314	12 126
Accrued income and prepaid expenses	6 579	9 169
Other assets	2 036	20 971
<b>Total assets</b>	<b>1 501 134</b>	<b>1 531 467</b>
<b>Total due from group companies and significant shareholders</b>	<b>20 955</b>	<b>22 772</b>

Liabilities	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Due on money market paper	2 297	13
Due to banks	56 199	271 134
Due to clients in the form of savings and investments	115	118
Due to clients, other	1 166 706	944 935
Bonds and mortgage bond loans	70 000	70 000
Accrued expenses and deferred income	6 409	11 665
Other liabilities	5 493	34 661
Value adjustments and provisions	26 471	34 151
Share capital	50 000	50 000
General statutory reserve	52 900	51 950
Other reserves	32 668	32 668
Retained earnings	17 222	15 604
Net profit	14 654	14 568
<b>Total liabilities</b>	<b>1 501 134</b>	<b>1 531 467</b>
<b>Total liabilities to group companies and significant shareholders</b>	<b>97 689</b>	<b>114 356</b>
<b>Off-Balance-Sheet Transactions</b>	<b>as at 31.12.2009</b>	<b>as at 31.12.2008</b>
	CHF 000s	CHF 000s
Contingent liabilities	29 202	28 466
Irrevocable commitments	40 318	39 755
Margin and other call liabilities	672	454
Derivative financial instruments		
Positive replacement value	1 224	20 444
Negative replacement value	3 718	30 778
Contract volume	329 905	1 026 869
Fiduciary transactions	349 432	321 325

# Income Statement

Income and Expenses	2009	2008
	CHF 000s	CHF 000s
<b>Income from interest business</b>		
Interest and discount income	28 372	53 568
Interest and dividend income from trading positions	301	79
Interest and dividend income from fixed financial assets	1 347	752
Interest expenses	-8 970	-32 075
<b>Total net interest income</b>	<b>21 050</b>	<b>22 324</b>
 <b>Income from commission business and services</b>		
Lending-related commission and fee income	217	264
Commission and fee income from securities and investment business	20 403	21 036
Other service-related commission and fee income	1 223	1 104
Commission and fee expenses	-4 056	-3 890
<b>Total net income from commission business and services</b>	<b>17 787</b>	<b>18 514</b>
 <b>Net income from trading operations</b>	<b>6 978</b>	<b>6 296</b>
 <b>Other ordinary income</b>		
Gain on disposal of fixed financial assets	165	-97
Income from permanent participations	1 279	1 004
Net profit on real estate	1 594	1 526
Other ordinary expenses	280	-1 430
<b>Total other ordinary income</b>	<b>3 318</b>	<b>1 003</b>
 <b>Operating expenses</b>		
Personnel expenses	-20 204	-19 372
Other operating expenses	-7 540	-7 198
<b>Total operating expenses</b>	<b>-27 744</b>	<b>-26 570</b>
 <b>Operating profit</b>	<b>21 389</b>	<b>21 567</b>

## Net Profit

(before appropriation of profit)

	2009	2008
	CHF 000s	CHF 000s
<b>Operating profit</b>	21 389	21 567
Depreciation on fixed assets and write-offs on long-term investments	-2 293	-2 386
Value adjustments, provisions and losses	-13 318	-5 141
<b>Profit before extraordinary items and taxes</b>	5 778	14 040
Extraordinary income	12 903	5 247
Extraordinary expenses	-155	-529
Taxes	-3 872	-4 190
<b>Net profit</b>	14 654	14 568
<b>Appropriation of profit</b>		
Net profit	14 654	14 568
Retained earnings brought forward from previous year	17 222	15 604
<b>Available earnings at end of year</b>	31 876	30 172
<b>Proposed appropriation of available earnings</b>		
Allocation to general statutory reserve	-1 150	-950
Dividend on share capital	-14 000	-12 000
<b>To be carried forward to next year</b>	16 726	17 222

## Cash Flow Statement

	2009		2008	
	Source of funds	Use of funds	Source of funds	Use of funds
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
<b>Cash flow from operations (internal financing)</b>				
Net profit for the year	14 654		14 568	
Depreciation on fixed assets and write-offs on long-term investments	2 198		2 357	
Value adjustments and provisions		7 680	682	
Accrued income and prepaid expenses	2 590		1 283	
Accrued expenses and deferred income		5 256		1 701
Dividend from previous year		12 000		10 000
<b>Balance</b>	<b>19 442</b>	<b>24 936</b>	<b>18 890</b>	<b>11 701</b>
<b>Cash flow from equity transactions</b>				
<b>Balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net cash flow from fixed assets</b>				
Permanent participations		71		206
Real estate		86		376
Other fixed assets		1 193		1 843
Projects		168		271
<b>Balance</b>	<b>0</b>	<b>1 518</b>	<b>0</b>	<b>2 696</b>

	2009		2008	
	Source of funds	Use of funds	Source of funds	Use of funds
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
<b>Net cash flow from banking operations</b>				
<b>Medium and long-term transactions (&gt; 1 year)</b>				
Other liabilities		29 168	20 961	
Due from clients	501			16 193
Mortgages		3 761	12 322	
Fixed financial assets		87 008	16 784	
Other assets	18 935			12 014
<b>Short-term transactions (&lt;1 year)</b>				
Due on money market paper	2 284			270
Due to banks		214 935		21 365
Due to clients in the form of savings and investments		3	27	
Due to clients, other	221 771		14 940	
Due from money market paper			1	
Due from banks	31 435			97 629
Due from clients	71 909			97 794
Trading positions in securities and precious metals	245		5 140	
<b>Net cash flow from liquid assets</b>				
Liquid assets		5 193	170 597	
<b>Balance</b>	<b>347 080</b>	<b>340 068</b>	<b>240 772</b>	<b>245 265</b>
<b>Total</b>	<b>366 522</b>	<b>366 522</b>	<b>259 662</b>	<b>259 662</b>

# 1. Explanatory Notes on Business Activities

## Number of Personnel

### General

Privatbank IHAG Zürich AG is an asset management bank serving an international clientele. As a rule, its credit operations are carried out on a secured basis. Securities trading for the Bank's own account is conducted primarily in Swiss equities. The branch office in Lugano was closed on 30 April 2009.

### Balance Sheet Business

As a rule, lendings to clients are secured by collateral or mortgages. Refinancing is carried out by means of client and interbank funds, as well as bonds issued by the *Pfandbriefbank Schweizerischer Hypothekar-institute* (mortgage bond issuer). Within the confines of predetermined limits, the Bank actively borrows short to lend long.

### Commission Business and Services

Commission business and services constitute the Bank's second main income stream after the interest business. They are associated specifically with investment operations related to asset management, investment counselling and fiduciary investments.

### Trading

The Bank is active in securities and foreign currency trading for both its own account and the account of third parties. It is a member of SIX Swiss Exchange, Scoach Switzerland Ltd., Eurex and Eurex Repo. In April 2007, the Bank was also awarded a Foreign Institutional Investor Licence from the Securities and Exchange Board of India in Mumbai. Limits of authority apply to trading operations for the Bank's own account.

### Other Areas of Business

The Bank's building on Bleicherweg in Zurich houses the Bank itself and IHAG Holding Corp. The remaining office space is rented out. The Bank holds all of the shares in IHAG Trustee Ltd., Zurich, a financing company which is active primarily in the trust business.

## **Risk Management**

Risk management involves the identification, measurement and evaluation of risks, as well as how they are dealt with and reported. Responsibility for this function is entrusted to the Executive Board. It is carried out by the relevant specialist offices.

Regular risk evaluations are conducted by a member of the Board of Directors who is appointed by the other members of the Board for this task. The appointee holds the title of Risk Officer. They report to the Board of Directors at least once a year.

### **Significant categories of risk**

The Bank's activities centre around the commission, service and lending businesses, as well as own-account trading in securities and foreign currency. Consequently, the types of risk that are significant to the Bank are as follows:

#### **Credit default risk**

Credit default risk covers the failure of individual counterparties to fulfil their interest and capital repayment obligations.

Investments with other banks and in money market instruments are made within the limits approved by the Board of Directors. The selection of top-rated counterparties reduces default risk here.

Credit risk exposure to clients is limited by means of creditworthiness checks, conservative lending ratios and cover margins. Loan applications are processed by a specialist department on the basis of the internal directive on lending and mortgages. In addition, the lending regulations stipulate that decisions are made at different levels depending on the degree of risk exposure per counterparty.

The client advisor and the lending department monitor credit risks on a daily basis. They are supported in this by detailed reports which quickly make it clear where limits have been exceeded or cover is insufficient. Marketable collateral is valued daily. The lending department periodically reviews the stability of the value of mortgage security.

Unsecured or at-risk lending positions are included under individual valuation adjustments in the financial statements. Default risks are assessed using the comprehensive standard Swiss approach and underwritten with equity.

#### **Interest rate risks**

Interest rate risk covers the negative impact on the Bank's financial position that might be triggered by a change in market interest rates.

As part of the ALM regulations, the Board of Directors has adopted limits for balance sheet management. Interest rate risks are managed centrally by the Treasury department. The Bank has a modern IT infrastructure, which also permits simulations and load testing, to measure and monitor interest rate risks.

The Asset and Liability Committee (ALCO) monitors compliance with limits and determines the balance sheet management strategy on the basis of assessments of short and medium-term market trends. It reports periodically to the Board of Directors' Risk Officer.

#### **Market risks**

Market risks are described as changes in market prices, specifically those of securities and foreign currencies, that may cause financial losses on the Bank's own holdings.

Limits are in place for trading inventories per nostro position and trader, and positions are valued daily at current prices. Interim monthly statements are approved by the Executive Board for the attention of the Board of Directors.

Market risks are limited using the de minimis approach and are underwritten with equity.

**Liquidity risk**

Liquidity risk describes the Bank's potential inability to satisfy expected or unexpected cash flows promptly when they fall due, or its inability, where necessary, to obtain liquidity on the terms normally expected.

Any liquidity risks are identified, measured and monitored as part of daily cash management activities. The Treasury department is in charge of this cash management, which is ongoing and transaction-related so that reaction times are very short. Total cash and cash equivalents are monitored continually at the Bank-wide level. External limits may be applied. Reports on compliance with liquidity regulations are produced daily.

The Bank's liquidity is secured under the terms of article 16 ff. of the Swiss Banking Act.

**Operational risk, incl. legal and compliance risk**

Operational risk is defined as the risk of direct or indirect losses arising from the inappropriateness or failure of internal procedures, individuals and systems, or from external events. This definition refers to both operational risk in general and to legal and compliance risk in particular.

Settlement risks and other operational risks are kept low by same-day processing and the internal monitoring system. Operational risks are strictly limited by high standards with regard to the quality and integrity of staff, as well as the encouragement within the Bank of high levels of diligence and quality-consciousness.

As part of our business continuity management, contingency plans are in place to manage incidences of loss. Such plans guarantee that key business processes will continue even in critical situations and emergencies.

The Bank's internal monitoring system and its business documents (standard agreements, order confirmations, itemised statements of all types) provide a foundation for minimising legal risks.

Operational risks are measured using the basis indicator approach and are underwritten with equity.

### Personnel

After adjustments for part-time working, the number of staff at the end of the year came to 87.05 (previous year 85.85), two of whom are engaged in a training programme.

### Outsourcing of Business Areas

The Bank has concluded outsourcing agreements with Biveroni Batschelet Partners AG, of Baden, for the handling of payment transactions via SIC, SWIFT, SECOM, etc., and with Exigno Consulting AG, of Dübendorf, for the production of tax statements for German private clients. The data that are passed on to partners as a result of these services being outsourced do not give any indication of the personal identities of our clients.

## 2. Accounting and Valuation Principles

### General Principles

The Bank prepares the individual statutory financial statements in accordance with the provisions of the Swiss Banking Act and the corresponding ordinance, as well as the regulations laid down in FINMA circular 2008/2.

Business transactions are recorded in the books of the Bank in accordance with the trade date principle. Spot transactions in all product categories that have been concluded but not yet fulfilled are booked according to the same principle.

The currency of account is the Swiss franc. Receivables and amounts payable in foreign currencies, as well as holdings of foreign banknotes, are valued at the market rate on the balance sheet date.

The following exchange rates have been applied to valuations:

	2009	2008
USD	1.0341	1.0642
EUR	1.4836	1.4782
GBP	1.6695	1.5305

### Liquid Assets, Amounts Due from Banks and Clients, Mortgages, Deposits

Amounts are booked at their nominal value. Collateral for lombard loans is valued at the sector's customary lending rates. In the case of mortgages, lending against rental properties is based on the income value. Valuations are obtained for private residential properties.

Individual value adjustments are undertaken for impaired loans. The impairment in value is measured as the difference between the book value of the receivable and the probable amount that can be collected, taking into account the net proceeds of the realisation of any collateral. Outstanding interest payments that are regarded as at risk are also allocated directly to value adjustments.

In the case of repurchase or reverse repurchase transactions with securities, the cash amounts that are exchanged are reported under the "Due from/Due to banks" items. Interest expenses and income are entered under "Income from interest business."

### Trading Positions in Securities and Precious Metals

Trading positions that are managed actively appear in the financial statements under trading positions. They are valued at the market rates in effect on the balance sheet date, while income is stated as trading income. Interest and dividends are booked as interest and dividend income from trading positions. No capital refinancing costs are charged to trading income.

### Fixed Financial Assets

Securities that are owned by the Bank but are not included in the trading portfolio are stated under fixed financial assets. Debt instruments acquired with the intention of holding until final maturity are valued in accordance with the accrual method, and all other financial investment positions are valued at the lower of cost or fair value. Interest and dividends on these holdings are booked as interest and dividend income from fixed financial assets.

### Permanent Participations

Participations in other companies which represent at least 10% of capital or voting rights are shown under permanent participations. The position also includes participations related to infrastructure, especially joint ventures, regardless of the percentage holding. Valuation is on the basis of acquisition cost less operationally necessary depreciation. Dividend income is stated as income from permanent participations under other ordinary income.

### Fixed Assets

Investments in fixed assets are stated at acquisition cost and written down over their estimated useful lives on the basis of a regular review of value retention.

### Accruals and Deferrals

Expense and income cut-offs are accrued or deferred and allocated to the corresponding items in the income statement. The amount of tax owed is calculated on the basis of net profit for the year and stated as a deferred expense in the corresponding financial year.

### Value Adjustments and Provisions

Provisions are created to cover recognisable risks. The reserve for general banking risks is not taxable and is included under other reserves.

### Off-Balance-Sheet Transactions and Derivative Financial Instruments

Contingent liabilities, irrevocable commitments, call commitments and additional funding commitments are reported at their nominal value. Derivative financial instruments are valued at market price. The replacement values of derivatives traded off-exchange (OTC) from client transactions in which the Bank acts as a commission agent are shown net. Exchange-traded contracts from client transactions are not reported.

Derivative financial instruments are used for both trading and hedging purposes.

### Definition of Client Assets/Net New Money Inflows and Outflows

Client assets include all assets that are held by the Bank for investment purposes and which generate income for the Bank in the form of custody or portfolio management fees. They include securities, precious metals, account balances, fixed-term deposits and fiduciary investments, incl. accrued interest. Forward foreign exchange transactions are stated net. Mortgage and security-backed loans are not counted.

Custody accounts held by other banks, monetary deposits by institutional investors, custody portfolios and client assets that serve purely as collateral for commercial loans are not included in the financial statements.

Net inflows and outflows of new money relate to clients assets and are not double-counted. Interest paid on mortgages and security-backed loans is treated as an outflow of money.

### Liabilities to the Bank's own Pension Fund

Privatbank IHAG Zürich AG maintains a dedicated pension fund for its employees. The Bank bears the costs of occupational pension provision for all employees in accordance with the statutory provisions. Employer contributions to the Bank's staff pension fund are set in advance at a fixed level and reported under personnel expenses. There are no contractual obligations under which special insurance situations would result in an increase or reduction of the Bank's costs.

Pension fund liabilities and the assets used to provide pension cover have been separated off into a legally independent foundation. The organisation, business management and financing of the pension fund are governed by statutory provisions, the deed of foundation and the applicable pension fund regulations.

### Changes Compared with the Previous Year

No material changes.

### 3. Notes to the Balance Sheet

#### 3.1 Overview of Collateral

as at 31.12.2009

		Type of Collateral			Total
		Mortgage	Other	Unsecured	
		CHF 000s	CHF 000s	CHF 000s	CHF 000s
<b>Loans and advances</b>					
Due from clients		83 809	329 136	129 052	541 997
Mortgages					
Residential properties		358 903	8 853	20 177	387 933
Office and business properties		18 460			18 460
Commercial and industrial properties		56 484	252	1	56 737
Others		850			850
<b>Total loans and advances</b>	<b>Current year</b>	<b>518 506</b>	<b>338 241</b>	<b>149 230</b>	<b>1 005 977</b>
	Previous year	559 906	367 999	146 721	1 074 626
<b>Off-balance-sheet transactions</b>					
Contingent liabilities		3 662	19 905	5 635	29 202
Irrevocable commitments		38 150	350	1 818	40 318
Margin and other call liabilities				672	672
<b>Total off-balance-sheet transactions</b>	<b>Current year</b>	<b>41 812</b>	<b>20 255</b>	<b>8 125</b>	<b>70 192</b>
	Previous year	44 083	18 993	5 599	68 675
<b>Impaired loans</b>					
		Gross amount owed	Estimated realisation proceeds from collateral	Net amount owed	Individual value adjustments
	<b>Current year</b>	<b>37 051</b>	<b>22 248</b>	<b>14 803</b>	<b>14 775</b>
	Previous year	20 839	12 444	8 395	7 784

The increase in the impaired loans item concerns a number of transactions for which collateral is not judged to be of sufficiently stable value. Full value adjustments have been made for the net amount owed.

### 3.2 Breakdown of Trading Positions in Securities and Precious Metals, Fixed Financial Assets and Permanent Participations

as at 31.12.2009 as at 31.12.2008

	CHF 000s	CHF 000s
<b>Trading positions in securities and precious metals</b>		
Listed debt instruments	2 942	2 260
Equities	1 238	2 165
<b>Total trading positions in securities and precious metals</b>	<b>4 180</b>	<b>4 425</b>
Of which securities eligible for repo transactions in accordance with liquidity regulations	0	0

	Book value as at 31.12.2009	Book value as at 31.12.2008	Fair Value as at 31.12.2009	Fair Value as at 31.12.2008
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
<b>Fixed financial assets</b>				
Debt securities				
intended for holding until final maturity	112 505	25 613	114 423	25 773
stated at lower of acquisition cost or fair value	3	3	10	11
Equities	1 035	919	1 254	921
<b>Total investments</b>	<b>113 543</b>	<b>26 535</b>	<b>115 687</b>	<b>26 705</b>
of which securities eligible for repo transactions in accordance with liquidity regulations	96 290	25 613	97 666	25 773
<b>Permanent participations</b>	<b>as of 31.12.2009</b>	<b>as of 31.12.2008</b>		
	CHF 000s	CHF 000s		
Without market value	1 237	1 105		
<b>Total permanent participations</b>	<b>1 237</b>	<b>1 105</b>		

### 3.3 Information about Major Permanent Participations

as at 31.12.2009

Privatbank IHAG Zürich AG holds no major permanent participations.

### 3.4 Permanent Participations and Fixed Assets

as at 31.12.2009

	Previous year			Current year			Book value at end of year under review CHF 000s
	Acquisition cost	Accumulated depreciation	Book value at end of previous year	Investments	Disposals	Depreciation/ appreciation	
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	
<b>Permanent participations</b>							
Majority participations	150		150				150
Minority participations	1 132	-177	955	129	-58	61	1 087
<b>Total permanent participations</b>	<b>1 282</b>	<b>-177</b>	<b>1 105</b>	<b>129</b>	<b>-58</b>	<b>61</b>	<b>1 237</b>
<b>Real estate</b>							
Bank building	9 940	-940	9 000				9 000
Conversion/renovation	7 592	-6 724	868	86		-432	522
<b>Other fixed assets</b>							
Projects	2 768	-2 454	314	168	-246*	-254	228
IT	7 405	-5 793	1 612	981	-1 666*	-1 410	1 183
Furniture and fittings	1 105	-773	332	223	-255	-163	381
<b>Total fixed assets</b>	<b>28 810</b>	<b>-16 684</b>	<b>12 126</b>	<b>1 458</b>	<b>-2 167</b>	<b>-2 259</b>	<b>11 314</b>

\* Disposals refer to fixed assets that have been written off in full and the acquisition cost of which has been booked out during the year under review.

<b>Fire insurance value</b>	CHF 000s
Of real estate	28 478
Of other fixed assets	22 625

3.5 Other Assets and Liabilities	as at 31.12.2009		as at 31.12.2008	
	Other assets CHF 000s	Other liabilities CHF 000s	Other assets CHF 000s	Other liabilities CHF 000s
Indirect taxes	790	1 169	522	3 463
Replacement values of derivative financial instruments				
Contracts on own account				
Interest rate instruments	194	0	0	0
Foreign exchange	864	3 552	20 426	30 760
Contracts on agent basis				
Equities/indices	166	166	18	18
Total derivative financial instruments	1 224	3 718	20 444	30 778
Compensation account	0	0	0	0
Settlement accounts	22	606	5	420
Total other assets and liabilities	2 036	5 493	20 971	34 661

3.6 Assets Pledged or Assigned to Secure Own Commitments and Assets Subject to Reservation of Ownership		
A Assets Pledged or Assigned, plus Assets Subject to Reservation of Ownership, Excluding Lending Transactions and Repo Transactions with Securities		
	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Book value of securities from fixed financial asset holdings that are lodged as margins with stock exchanges and brokers	17 188	10 499
liabilities/amount utilised	4 527	2 247
Book value of mortgage receivables pledged as collateral for mortgage bond loans	118 351	138 543
liabilities/amount utilised	70 241	70 280
B Lending Transactions and Repo Transactions with Securities		
	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Receivables from cash deposits in connection with securities borrowing and reverse repurchase transactions	60 000	145 000
Due on cash deposits in connection with securities lending and repurchase transactions	0	0
Securities in Bank ownership that are lent in connection with securities lending or supplied as collateral under securities borrowing, as well as those in Bank ownership transferred in repurchase transactions	0	0
of which carrying an unrestricted right of onward sale or pledge	0	0
Securities borrowed as collateral in connection with securities lending or borrowed under securities borrowing, or received in connection with reverse repurchase transactions, which carry an unrestricted right of onward sale or pledge	59 961	145 018
of which securities pledged or sold onward	0	0
3.7 Information on our own Pension Fund		
	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Book value of liabilities to the pension fund	3 569	24 612
Pension fund cover ratio	110.9% *	108.5%
Pension expense as a part of personnel expense	1 759	1 663
The pension fund for the employees of Privatbank IHAG Zürich AG is operated on a defined-contribution basis.		
*Not yet audited		
3.8 Outstanding Bonds		
	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Loan from the <i>Pfandbriefbank Schweizerischer Hypothekarinstitute</i>	70 000	70 000
Average interest rate	2.376%	2.100%

### 3.9 Value Adjustments and Provisions

as at 31.12.2009

	Balance at end of previous year	Used as designated	Change of designated purpose (reclassification)	Recoveries, overdue interest, currency differences	New provisions charged to income statement	Releases to income statement	Balance at end of current year
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Value adjustments and provisions for default and other risks:							
Value adjustments and provisions for default and country risks	7 784	-19	0	505	6 505	0	14 775
Value adjustments and provisions for other business risks	0	-1 040	5 682	0	6 174	0	10 816
Other provisions	34 151	-1 115	-5 682	7	655	-12 361	15 655
<b>Total value adjustments and provisions</b>	<b>41 935</b>	<b>-2 174</b>	<b>0</b>	<b>512</b>	<b>13 334</b>	<b>-12 361</b>	<b>41 246</b>
less value adjustments set off directly against assets	7 784						14 775
<b>Total value adjustments and provisions as per balance sheet</b>	<b>34 151</b>						<b>26 471</b>

In previous years, value adjustments and provisions for other business risks have been included under other provisions. They are now shown separately as a result of a change in their purpose.

### 3.10 Share Capital and Shareholders with Participating Interests of more than 5% of all Voting Rights

as at 31.12.2009

as at 31.12.2008

	CHF 000s	CHF 000s
<b>Share capital</b>		
Total nominal value of share capital	50 000	50 000
Dividend-bearing capital	50 000	50 000
Number of shares	= 50 000 shares	= 50 000 shares
<b>Shareholders with more than 5% of all voting rights</b>		
IHAG Holding Corp., Zurich	50 000 = 100%	50 000 = 100%
IHAG Holding Corp., Zurich		
25.76% Dr Dietrich Bührle family		
74.24% Hortense Anda-Bührle family		

## 3.11 Statement of Shareholders' Equity (before appropriation of profit)

as at 31.12.2009

	CHF 000s
<b>Shareholders' equity at the beginning of the year</b>	
Paid-in share capital	50 000
General statutory reserve	51 950
Other reserves	32 668
Retained earnings	30 172
<b>Total shareholders' equity at the beginning of the year</b> (before appropriation of profit)	<b>164 790</b>
Dividends and other distributions from the previous year's net profit	-12 000
Net profit for the current year	14 654
<b>Total shareholders' equity at the end of the year</b> (before appropriation of profit)	<b>167 444</b>
Of which: paid-in share capital	50 000
general statutory reserve	52 900
other reserves	32 668
retained earnings	31 876

	as at 31.12.2009 CHF 000s	as at 31.12.2008 CHF 000s
<b>Eligible capital</b>		
Paid-up capital	50 000	50 000
Disclosed reserves	86 718	85 568
Profit carried forward	16 726	17 222
Total capital and reserves	153 444	152 790
less intangible assets	-229	-315
<b>Total eligible Tier 1 capital</b>	<b>153 215</b>	<b>152 475</b>

as at 31.12.2009

Required capital	Approach used	Capital adequacy requirements	
		CHF 000s	CHF 000s
Credit risk <sup>(1)</sup>	Standard Swiss approach, comprehensive		44 080
Of which: price risk attached to equities in the banking book <sup>(2)</sup>		639	
Non-counterparty-related risks	Standard Swiss approach		2 685
Market risk <sup>(3)</sup>	De minimis approach		549
Of which: related to interest instruments (gen. market risk)		0	
Of which: related to equities		0	
Of which: related to foreign exchange		332	
Of which: related to gold and commodities		217	
Operational risk	Basic indicator approach		7 408
General value adjustments and provisions			-874
<b>Total required capital</b>			<b>53 848</b>
Ratio of eligible to required equity under Swiss law			2.628

<sup>(1)</sup> Incl. bonds in trading positions where the capital requirement is calculated using the de minimis approach.

<sup>(2)</sup> Incl. equities in trading positions where the capital requirement is calculated using the de minimis approach.

<sup>(3)</sup> Excl. trading positions according to the de minimis approach.

### 3.12 Maturity Structure of Current Assets, Investments and Liabilities to Banks and Clients as at 31.12.2009

	At sight	On call	Due within 3 months	Due within 3–12 months	Due within 1–5 years	Due after 5 years	Total	
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	
<b>Current assets</b>								
Liquid assets	102 178						102 178	
Due from banks	134 140		119 950				254 090	
Due from clients		147 656	252 052	120 497	11 792	10 000	541 997	
Mortgages		99 586	257 086	60 728	36 580	10 000	463 980	
Trading positions	1 323		1 433	1 223	201		4 180	
Fixed financial assets	1 037			15 862	33 834	62 810	113 543	
<b>Total current assets</b>	<b>Current year</b>	<b>238 678</b>	<b>247 242</b>	<b>630 521</b>	<b>198 310</b>	<b>82 407</b>	<b>82 810</b>	<b>1 479 968</b>
	Previous year	149 793	287 945	713 773	212 430	66 555	57 600	1 488 096
<b>Liabilities</b>								
Due on money market paper	2 297						2 297	
Due to banks	1 363		34 836	20 000			56 199	
Due to clients in the form of savings and investments		115					115	
Due to clients, other	1 008 841	3 507	57 389	96 969			1 166 706	
Bonds and mortgage bond loans					50 000	20 000	70 000	
<b>Total liabilities</b>	<b>Current year</b>	<b>1 012 501</b>	<b>3 622</b>	<b>92 225</b>	<b>116 969</b>	<b>50 000</b>	<b>20 000</b>	<b>1 295 317</b>
	Previous year	547 258	92 376	435 240	161 326	50 000	0	1 286 200

### 3.13 Amounts Due from and to Affiliated Companies and Loans Granted to Related Persons and Entities as at 31.12.2009 as at 31.12.2008

	CHF 000s	CHF 000s
Amounts due from affiliated companies	717	579
Amounts due to affiliated companies	18 614	27 369
Loans granted to related persons and entities	7 426	6 251

#### Transactions with associated parties

Amounts due to and from associated companies relate to positive and negative current account balances. Transactions such as securities trades, payment transfers, the granting of loans and returns on deposits are conducted on the same terms as apply to third parties. Loans granted to related persons and entities include CHF 4,650,000 in mortgages, on which interest is charged at two percentage points less than standard market terms.

3.14 Domestic and Foreign Breakdown of Assets and Liabilities	as at 31.12.2009		as at 31.12.2008	
	Domestic CHF 000s	Foreign CHF 000s	Domestic CHF 000s	Foreign CHF 000s
<b>Assets</b>				
Liquid assets	52 099	50 079	56 520	40 465
Due from banks	113 227	140 863	181 701	103 824
Due from clients	266 430	275 567	417 565	196 842
Mortgages	463 980		460 219	
Trading positions in securities and precious metals	1 821	2 359	3 430	995
Fixed financial assets	49 699	63 844	12 978	13 557
Permanent participations	1 237		1 105	
Fixed assets	11 314		12 126	
Accrued income and prepaid expenses	6 579		9 169	
Other assets	1 751	285	17 810	3 161
<b>Total assets</b>	<b>968 137</b>	<b>532 997</b>	<b>1 172 623</b>	<b>358 844</b>
<b>Liabilities</b>				
Due on money market paper	2 297		13	
Due to banks	30 691	25 508	170 599	100 535
Due to clients in the form of savings and investments	115		118	
Due to clients, other	693 670	473 036	538 057	406 878
Bonds and mortgage bond loans	70 000		70 000	
Accrued expenses and deferred income	6 409		11 665	
Other liabilities	4 532	961	24 313	10 348
Value adjustments and provisions	26 471		34 151	
Share capital	50 000		50 000	
General statutory reserve	52 900		51 950	
Other reserves	32 668		32 668	
Retained earnings	17 222		15 604	
Net profit	14 654		14 568	
<b>Total liabilities</b>	<b>1 001 629</b>	<b>499 505</b>	<b>1 013 706</b>	<b>517 761</b>

3.15 Assets by Country/Region	as at 31.12.2009	as at 31.12.2009	as at 31.12.2008	as at 31.12.2008
	CHF 000s	in %	CHF 000s	in %
Europe	376 385	25.07	280 435	18.31
Other countries	156 612	10.43	78 409	5.12
<b>Total foreign countries</b>	<b>532 997</b>	<b>35.50</b>	<b>358 844</b>	<b>23.43</b>
Switzerland	968 137	64.50	1 172 623	76.57
<b>Total assets</b>	<b>1 501 134</b>	<b>100.00</b>	<b>1 531 467</b>	<b>100.00</b>

### 3.16 Breakdown of Assets and Liabilities by Currency

as at 31.12.2009

	CHF 000s	EUR (in CHF 000s)	USD (in CHF 000s)	Other (in CHF 000s)	Total CHF 000s
<b>Assets</b>					
Liquid assets	50 848	51 065	46	219	102 178
Due from banks	118 123	42 853	59 795	33 319	254 090
Due from clients	290 967	190 386	56 847	3 797	541 997
Mortgages	461 310	2 670			463 980
Trading positions in securities and precious metals	4 251	-56	-15		4 180
Fixed financial assets	74 532	38 169	842		113 543
Permanent participations	1 237				1 237
Fixed assets	11 314				11 314
Accrued income and prepaid expenses	6 002	379	194	4	6 579
Other assets	2 007	12	12	5	2 036
<b>Total on-balance-sheet assets</b>	<b>1 020 591</b>	<b>325 478</b>	<b>117 721</b>	<b>37 344</b>	<b>1 501 134</b>
Delivery claims from foreign exchange spot, forward and option transactions	24 718	151 248	105 257	34 224	315 447
<b>Total assets</b>	<b>1 045 309</b>	<b>476 726</b>	<b>222 978</b>	<b>71 568</b>	<b>1 816 581</b>
<b>Liabilities</b>					
Due on money market paper	2 120	167	10		2 297
Due to banks	40 024	14 839	586	750	56 199
Due to clients in the form of savings and investments	115				115
Due to clients, other	511 267	418 109	175 083	62 247	1 166 706
Bonds and mortgage bond loans	70 000				70 000
Accrued expenses and deferred income	6 288	58	59	4	6 409
Other liabilities	5 492	1			5 493
Value adjustments and provisions	26 471				26 471
Share capital	50 000				50 000
General statutory reserve	52 900				52 900
Other reserves	32 668				32 668
Retained earnings	17 222				17 222
Net profit	14 654				14 654
<b>Total on-balance-sheet liabilities</b>	<b>829 221</b>	<b>433 174</b>	<b>175 738</b>	<b>63 001</b>	<b>1 501 134</b>
Delivery obligations from foreign exchange spot, forward and option transactions	222 081	41 322	46 328	8 404	318 135
<b>Total liabilities</b>	<b>1 051 302</b>	<b>474 496</b>	<b>222 066</b>	<b>71 405</b>	<b>1 819 269</b>
<b>Net position per currency</b>	<b>-5 993</b>	<b>2 230</b>	<b>912</b>	<b>163</b>	<b>-2 688</b>

## 4. Notes to Off-Balance-Sheet Transactions

4.1 Breakdown of Contingent Liabilities	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Loan collateral guarantees	18 434	17 731
Warranty bonds	353	358
Capital protection guarantees	10 415	10 377
<b>Total</b>	<b>29 202</b>	<b>28 466</b>

### 4.2 Contingent Credits as at 31.12.2009

As at the balance sheet date there were no deferred payments, acceptance liabilities or other contingent credits.

### 4.3 Breakdown of Open Derivative Financial Instruments as at 31.12.2009

	Trading instruments			Hedging instruments		
	Positive replace- ment value	Negative replace- ment value	Contract volume	Positive replace- ment value	Negative replace- ment value	Contract volume
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s
<b>Interest instruments</b>						
Swaps	194	0	12 000	0	0	0
Futures	0	0	835	0	0	0
<b>Foreign exchange/precious metals</b>						
Forward contracts	631	605	41 352	0	0	0
Combined interest/currency swaps	165	162	18 273	68	2 785	197 905
Options (OTC)	166	166	57 917	0	0	0
<b>Equity securities/indices</b>						
Futures	0	0	1 623	0	0	0
<b>Total before netting agreements</b>						
Current year	1 156	933	132 000	68	2 785	197 905
Previous year	20 217	19 944	845 896	227	10 834	180 973
<b>Total after netting agreements</b>						
Current year	1 156	933		68	2 785	
Previous year	20 217	19 944		227	10 834	

4.4 Breakdown of Fiduciary Transactions	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Fiduciary transactions with other banks	336 386	311 731
Fiduciary loans and other fiduciary financial transactions	13 046	9 594
<b>Total</b>	<b>349 432</b>	<b>321 325</b>

  

4.5 Breakdown of Assets under Management	as at 31.12.2009	as at 31.12.2008
	CHF 000s	CHF 000s
Assets held in collective investment schemes managed by the Bank	60 678	51 375
Assets held under portfolio management mandates	594 393	521 653
Other assets under management*	3 486 912	2 591 129
<b>Total assets under management (incl. double-counting)</b>	<b>4 141 983</b>	<b>3 164 157</b>
of which double-counted	60 537	51 353
Net inflow of new money	725 793	211 842

\* Incl. assets administered by external asset managers

#### Notes on the calculation of client assets:

The financial statements record all of the assets which are held with the Bank for investment purposes and generate income in the form of custody account fees or portfolio management charges. The figures do not include custody accounts belonging to other banks and securities traders, money market deposits from institutional investors or customer assets which are held purely as collateral for commercial loans. Also excluded from "Other client assets" are custody portfolios which are held solely for transaction and safekeeping purposes.

"Net inflows" covers all incomings and outgoings of money and securities. Net inflows are calculated on the same basis as client performance. Security-backed loans and mortgages are not included under client assets. Credit interest is thus treated as an outflow.

## 5. Notes to the Income Statement

### 5.1 Refinancing Income under Interest and Discount Income

No refinancing costs for the trading business are charged to interest and discount income.

5.2 Breakdown of Net Income from Trading Operations	2009	2008
	CHF 000s	CHF 000s
Foreign exchange and banknotes	4 767	6 296
Securities	2 017	0
Interest rate derivatives	194	0
<b>Total</b>	<b>6 978</b>	<b>6 296</b>

5.3 Breakdown of Personnel Expenses	2009	2008
	CHF 000s	CHF 000s
Salaries	15 712	15 192
Social costs	3 855	3 626
Other personnel costs	637	554
<b>Total</b>	<b>20 204</b>	<b>19 372</b>

5.4 Breakdown of Other Operating Expenses	2009	2008
	CHF 000s	CHF 000s
Office and related costs	750	752
IT, equipment, furniture	2 253	2 316
Other business expenses	4 537	4 130
<b>Total</b>	<b>7 540</b>	<b>7 198</b>

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## 5.5 Additional Explanatory Notes

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### Notes on substantial losses, extraordinary income and expenses and on substantial write-backs of undisclosed reserves, reserves for general banking risks and releases from value adjustments and provisions

Individual value adjustments totalling CHF 6,505,000 were made during the reporting year to cover impaired loans. Provisions of CHF 6,500,000 mainly concern provisions for client claims owing to investment losses. These value adjustments and provisions were drawn primarily (CHF 12,361,000) from the general statutory (undisclosed) reserves and thus do not impact on the income statement (see also extraordinary income).

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## 5.6 Upward Revaluations of Fixed Assets to a Maximum of their Acquisition Cost

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Fixed assets were revalued upward by CHF 94,000 during the year under review.

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## 5.7 Earnings and Expenses from Ordinary Banking Operations Broken Down Between Switzerland and Other Countries Using the Operational Site Principle

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Privatbank IHAG Zürich AG does not own any operational sites abroad.

# Report of the Statutory Auditor

## To the General Meeting of the Shareholders of Privatbank IHAG Zürich AG, Zurich

### Report on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of Privatbank IHAG Zürich AG, which comprise the balance sheet, income statement and notes (pages 12 to 39) 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 about 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 licencing according to the Audit Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Deloitte Ltd.

Rolf Schönauer  
Licenced audit expert  
Auditor in charge

Ursula Krähenbühl  
Licenced audit expert

Zurich, 12 March 2010



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