



Annual Report 2010



This Annual Report is also
available in German.
The German version is binding
in all matters of interpretation.

Annual Report of the Board of Directors and Executive Board on the 2010 Financial Year

Foreword by the Board of Directors

Standing Firm in a Difficult Environment

In what was another turbulent twelve months in 2010, IHAG Privatbank achieved a good result, almost matching the previous year's excellent net profit. In a year which gave the impression that the Swiss financial industry was crumbling fast, the Bank did well in overcoming the challenges faced by all. Commission and fee income and trading revenues both grew. Net interest income was the only item to impact negatively on the result, owing to persistently low interest levels combined with the strength of the Swiss franc.

The financial year just ended was marked by the debt crisis in Europe, the ultra-expansive monetary policies pursued by the world's central banks, and the erosion of the euro and the US dollar. Politics also directed the action on the financial markets. Continued high levels of growth in the emerging markets were the only reliable constant. Amid this turmoil, determining our investment policy and advising our clients proved to be a considerable challenge.

The pace of regulatory change in the banking industry picked up another notch following the already significant shifts of the previous year. Combined with new political initiatives, this did little to offer a clear picture of the future. Under the circumstances, we must naturally subject the Bank's strategic direction and business model to continual review, so that we are able to adapt if necessary to the changing operating conditions we face. Our sound capital base, the excellent balance between our income streams, our highly qualified staff and our flexibility give us a firm foundation from which to rise to the challenges of the future.

The Board of Directors offers its warm thanks to all IHAG Privatbank clients for their continued confidence. We will repay this debt of trust by devoting all of our efforts to serving your needs in 2011 as we have in the past. Enormous gratitude also goes to our staff for their professionalism and client focus, as well as their ability to adapt to a changing environment.

A Turbulent Year on the Capital Markets

Things were far from smooth on the financial markets in 2010 either. At first it looked as though the equity markets might be able to carry the momentum of 2009 over into the new year. The markets soon came under pressure, however, as China attempted to cool its overheated economy with a more restrictive monetary policy and created world-wide uncertainty in the process. The next two months seemed to point to a recovery, before the markets took a heavy blow at the end of April. Investor confidence was shattered as the vast scale of Greek debt brought the European crisis to a head. Added to this were fears of a possible "double-dip" recession in the USA. The markets remained correspondingly directionless and volatile over the summer months. It was the second half of the year before they returned to an upward path, after the US Federal Reserve had announced a further injection of liquidity in the form of "Quantitative Easing II", and the situation in Europe gradually became less tense. Equity performance for the year as a whole was generally positive (DAX + 16.1%, Dow Jones + 11%, S&P 500 + 12.8%, NASDAQ + 16.9%, Hang Seng + 5.3%). Meanwhile, the Swiss (SMI - 1.7%, SPI + 2.9%) and Japanese (Nikkei - 3%) stock markets suffered from the strength of their domestic currencies. In China, the overheated economy made for a disappointing performance for the year (Shanghai - 14.3%).

There is no doubt that the year just ended heralded an era of Western sovereign debt crisis. The single European currency faced an acid test, especially given the serious problems at the outer reaches of the euro zone. There were even fears that the euro would fail completely, so it was no wonder that the currency lost 7% against the US dollar - which is not in the best of shape itself. At times, the euro was more than 16% down against the greenback. Once again, the Swiss franc (+ 19% vs. EUR) and Japanese yen (+ 23% vs. EUR) assumed the role of a safe haven in uncertain times.

The European crisis also manifested itself in the yields on long-dated government paper. The premiums demanded on bonds from PIIGS states simply exploded, as much as doubling in Greece and Ireland. At the core of Europe and in the USA, interest rates continued to decline (between - 15% and - 9% for 2010), but remained relatively unchanged from the annual perspective in Switzerland. A number of factors were behind the rocketing prices of some commodities (e.g. cotton + 87%, wheat + 28%, copper + 31%, oil + 11%, palladium + 97%, gold + 30%, silver + 83%). The trend was certainly bolstered by great demand from investors looking for diversification and protection against inflation. Other decisive factors included the weakness of the US dollar and the euro, failed harvests, China's insatiable hunger for raw materials, and the expanding world economy.

In our view, share prices will continue to rise slowly and steadily because company valuations currently offer good value, the economic recovery is progressing, monetary policy remains liberal, and there are few viable alternatives. That said, we cannot expect equity market volatility to settle at its present low level. Rather, 2010 is likely to bring times of trenchant corrections, as unpleasant surprises connected with potential interest rate hikes, state and currency crises or other macroeconomic setbacks seem inevitable. The growing economy and the heavy debt burden of the West also indicate that the days of low interest rates may be numbered.

Lending – Interest Rates Remain Low

As in 2009, interest rates remained at an extremely low level. The large amount of liquidity in the system often failed to make its way to borrowers. Instead, it was pumped around in a circle, from the SNB to the money market, and from there to state-owned or state-supported banks, and then back to the SNB. This type of circulation may be virtually risk-free, but it cannot create value. One way of breaking out of this cycle is to increase market share by charging the lowest possible margins. Consequently, it is not low interest rates alone, but surplus liquidity, in particular, that results in individual banks charging unrealistic prices. This market distortion will come to an end, however. It may safely be assumed that those banks that have increased their lending volumes at dumping-level prices will be the first that are forced massively to increase their margins.

Although worries of inflation have retreated somewhat, very many clients still prefer fixed interest rates over the long term. This has at least as much to do with a personal feeling of certainty as it does with expectations of rising interest rates. In our view, however, there will be only isolated rate rises over the months to come. The great majority of clients chose the short one-to-three-month LIBOR or the seven-to-ten-year interest periods. Only a small number of clients opted for variable durations or for durations of between two and five years.

Lending volume was marginally lower in 2010. The pleasing rise in deposits did not prompt us to increase the amount we lend, but confirmed our position that we can easily continue to finance current lending volumes even in the long-term. Factoring out losses owing to lending in foreign currencies, our interest business held up well last year, despite a difficult operating environment and aggressive competition.

Our long-standing clients remain steadfastly loyal, even though we do not offer any cut-price mortgages. Our clients continue to bank with us because we remain a reliable partner through good times and bad alike. In awarding mortgages, IHAG Privatbank concentrates on residential properties in Switzerland, with an emphasis on the Zurich area. Loans are also granted against properties in neighbouring countries under certain, exceptional circumstances. 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 – Demanding Year Weathered Successfully

The economic recovery that took hold in most economies in mid-2009 continued through into early 2010. While the emerging markets recorded a boom that lasted until the end of the year, growth in the USA slowed markedly from Q1 2010 onwards. Furthermore, in the spring the euro zone was plunged into the first round of the debt crisis. Greece was forced to accept help from both the EU and the IMF. The value of the euro dropped dramatically, especially against the Swiss franc, where it fell to a post-launch low. After reaching new cyclical highs in April, the equity markets suffered major corrections. Yields on top-rated government bonds fell to historic lows. The US Federal Reserve responded to the increasingly sluggish recovery in the US economy with additional easing measures to stop the country sliding into deflation. Finally, at the end of the year Ireland was the second euro state to call upon financial aid from the EU. Fears that Portugal and Spain might follow suit brought renewed unrest to the equity, interest and foreign exchange markets. It was an extremely demanding year!

2010 was also a year of regulatory change across a broad front. The new settlement tax exists as an agreement in principle, but there is the risk that concessions will have to be made in 2011. The exact form of the new tax remains unclear, so we can only speculate for now on the ramifications that it will have.

The initial response from IHAG Privatbank has been to further restrict our activities geographically. We have also drawn up minimum requirements for domestic and international clients. These include compliance with regulatory requirements at the client's place of domicile and, in particular, the proactive implementation of the highest standards of investor protection. All in all, Private Banking generated a substantial increase in its revenues of some CHF 2 million compared with the 2009 financial year. Our client and asset base also expanded once again.

IHAG Privatbank firmly believes that Switzerland retains its appeal as a base for portfolio management activities. Factors include the country's political and economic stability, as well as its long-standing private banking tradition. Qualities such as trustworthiness, professionalism and continuity remain decisive.

Trading Well Above Budget and Previous Year

An extremely volatile year on the financial markets offered up countless investment opportunities to short-term investors. We were able to trade very high volumes of a number of instruments for our clients. This was a considerable challenge for our team, although their many years of experience enabled them to handle the transactions professionally amid hectic markets. Commission and fee income, as well as revenues from securities, foreign exchange and interest activities, far exceeded the budget and the previous year's result.

The challenges faced by Treasury operations included the debt crisis and the steep yield curve. Correct market assessments by our experts nonetheless resulted in high returns for the Bank. We also profited from our clients' confidence in us, and the record levels of client assets that found their way into our balance sheet as a result.

Further Progress in IT

There were no major problems with our IT systems in 2010. The focus for IT was on "virtualising" the workplace. Despite considerable technical challenges, we went live with the first virtual pilot installations on the new Windows7 operating system with Office 2010. This represents a major step forward in the implementation of our Business Continuity Management Strategy.

Staff – Stability and Targeted Team Expansion

As at the end of the year, IHAG Privatbank had 97 staff, 23 of whom work part-time. We also have two individuals in training toward a recognised commercial qualification.

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.

Good Result for 2010

In the financial year just ended, the Bank generated total income of CHF 46.3 million, which corresponds to a 5.7% decline compared with the previous year (CHF 49.1 million). Net profit came to CHF 12.7 million (2009: CHF 14.6 million).

The main reason for the slight fall in the Bank's overall result is the interest business. At CHF 18.3 million, interest income dropped 13% compared with the previous year's figure of CHF 21 million, even though total assets grew by around 7% to CHF 1.6 billion over the end of 2009. The uncertainty felt by many of our clients was reflected in high holdings of cash, meaning that liabilities to clients rose still further and ultimately accounted for some 80% of our deposit business, or CHF 1.3 billion. This is an expression of our clients' great confidence in our Bank, but persistently low interest rates mean that it has been impossible to generate any credit interest margin for some time now.

Lending volumes fell slightly, and stood at CHF 950 million (2009: CHF 1 billion) at the end of the year. Interest margins could be maintained despite tough competition in the mortgage business, in particular. The strong Swiss franc nonetheless impacted heavily on margins on lending in foreign currencies.

At a pleasing CHF 18.1 million, commission and fee income exceeded the previous year's figure of CHF 17.8 million slightly. The successful acquisition of new client assets and partnerships with external asset managers were extended further in 2010. While brokerage income matched the 2009 level, a sharp 18% rise was recorded in custody account and portfolio management fees.

The trading business was also extremely successful during the year just ended. Revenues of CHF 7.6 million outstripped the previous year's result of CHF 6.9 million by 10%. This was attributable mainly to foreign exchange trading. The strength of the Swiss franc against the US dollar and euro in the second half of the year resulted in large volumes of hedging transactions. The Bank also handled several major precious metals trades.

Other ordinary income came in at CHF 2.3 million (2009: CHF 3.3 million). The decline is due to a smaller dividend from an infrastructure holding, as well as generally lower income from property.

Both personnel expenses and other operating expenses remained unchanged compared with the previous year. Operating expenses came to a total of CHF 27.7 million (2009: CHF 27.7 million). With 87.25 full-time equivalents compared with 87.05 in 2009, there was also very little movement in staff numbers.

At CHF 2.1 million, depreciation on fixed assets was slightly lower than in the previous year (CHF 2.3 million), owing to less replacement investment in hardware.

A further CHF 2.3 million in value adjustments had to be made for non-performing loans in 2010. Provisions and losses stood at CHF 0.4 million in total.

Extraordinary income was boosted by the write-back of CHF 1 million in other provisions, and a further CHF 1.3 million in provisions for other business risks that are no longer operationally necessary.

Board of Directors, Executive Board and Management

Board of Directors

Gratian Anda
Zurich

Chairman

Peter Bretscher
Ebmingen

Member

Dr. Susanne Riess-Passer
Innsbruck, Austria

Member

Executive Board as of March 2011

Dr. Heinz Stadler

Chief Executive Officer

Peter D. Rüegg

Deputy Chief Executive Officer

Jürg Bretscher

Member

External Auditors

Deloitte Ltd., Zurich

Internal Auditor

Marcel Ming
AudiBa Ltd., Audit and Advisory, Bubikon

Management as of March 2011

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

Facts & Figures

Key Data

Income Statement	2010	2009
	CHF 000s	CHF 000s
Operating profit	18 645	21 389
Net profit	12 713	14 654
Income from commission business and services	18 089	17 787
Net income from trading operations	7 612	6 978
Net interest income	18 283	21 050
Operating expenses	-27 685	-27 744
Balance Sheet	2010	2009
	CHF 000s	CHF 000s
Eligible capital (core capital)	151 027	153 215
Tier 1 capital ratio	23.6%	22.8%
Total assets	1 616 477	1 501 134
Number of personnel	97	97

Proposal of the Board of Directors to the General Meeting of 18 April 2011

We should like to propose to the General Meeting that:

1. The Annual Report, Balance Sheet and Income Statement for 2010 be approved.
2. The Board of Directors and Executive Board be discharged from liability for the 2010 business operations of the Bank.
3. The net profit of CHF 12.713 million and the retained earnings of CHF 16.726 million brought forward from the previous year, which together total CHF 29.439 million, be appropriated as follows:

	CHF 000s
a) Dividend on share capital	15 000
b) Allocation to the general statutory reserve	1 250
c) Allocation to other reserves	0
d) To be carried forward to next year	13 189
Total available earnings	29 439

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

Balance Sheet as at 31 December 2010
(before appropriation of profit)

Assets	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Liquid assets	95 001	102 178
Due from banks	442 656	254 090
Due from clients	490 507	541 997
Mortgages	461 281	463 980
Trading positions in securities and precious metals	3 532	4 180
Fixed financial assets	97 796	113 543
Permanent participations	1 237	1 237
Fixed assets	11 527	11 314
Accrued income and prepaid expenses	6 433	6 579
Other assets	6 507	2 036
Total assets	1 616 477	1 501 134
Total due from group companies and significant shareholders	13 345	20 955

Liabilities	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Due on money market paper	89	2 297
Due to banks	33 040	56 199
Due to clients in the form of savings and investments	103	115
Due to clients, other	1 311 247	1 166 706
Bonds and mortgage bond loans	70 000	70 000
Accrued expenses and deferred income	6 738	6 409
Other liabilities	11 992	5 493
Value adjustments and provisions	17 111	26 471
Share capital	50 000	50 000
General statutory reserve	54 050	52 900
Other reserves	32 668	32 668
Retained earnings	16 726	17 222
Net profit	12 713	14 654
Total liabilities	1 616 477	1 501 134
Total liabilities to group companies and significant shareholders	93 938	97 689
Off-Balance-Sheet Transactions	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Contingent liabilities	21 582	29 202
Irrevocable commitments	2 058	40 318
Margin and other call liabilities	672	672
Derivative financial instruments		
Positive replacement values	5 421	1 224
Negative replacement values	8 169	3 718
Contract volume	512 365	329 905
Fiduciary transactions	269 613	349 432

Income Statement

Income and Expenses	2010	2009
	CHF 000s	CHF 000s
Income from interest business		
Interest and discount income	20 124	28 372
Interest and dividend income from trading positions	59	301
Interest and dividend income from fixed financial assets	2 638	1 347
Interest expenses	-4 538	-8 970
Total net interest income	18 283	21 050
Income from commission business and services		
Lending-related commission and fee income	199	217
Commission and fee income from securities and investment business	21 918	20 403
Other service-related commission and fee income	702	1 223
Commission and fee expenses	-4 730	-4 056
Total net income from commission business and services	18 089	17 787
Net income from trading operations	7 612	6 978
Other ordinary income		
Gain on disposal of fixed financial assets	58	165
Income from permanent participations	1 062	1 279
Net profit on real estate	1 271	1 594
Other ordinary expenses	-45	280
Total other ordinary income	2 346	3 318
Operating expenses		
Personnel expenses	-20 342	-20 204
Other operating expenses	-7 343	-7 540
Total operating expenses	-27 685	-27 744
Operating profit	18 645	21 389

Net Profit

(before appropriation of profit)

	2010	2009
	CHF 000s	CHF 000s
Operating profit	18 645	21 389
Depreciation on fixed assets and write-downs on long-term investments	-2 051	-2 293
Value adjustments, provisions and losses	-2 726	-13 318
Profit before extraordinary items and taxes	13 868	5 778
Extraordinary income	2 256	12 903
Extraordinary expenses	0	-155
Taxes	-3 411	-3 872
Net profit	12 713	14 654
Appropriation of profit		
Net profit	12 713	14 654
Retained earnings brought forward from previous year	16 726	17 222
Available earnings at end of year	29 439	31 876
Proposed appropriation of available earnings		
Allocation to general statutory reserve	-1 250	-1 150
Dividend on share capital	-15 000	-14 000
To be carried forward to next year	13 189	16 726

Cash Flow Statement

	2010		2009	
	Source of funds	Use of funds	Source of funds	Use of funds
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Cash flow from operations (internal financing)				
Net profit for the year	12 713		14 654	
Depreciation on fixed assets and write-downs on long-term investments	2 051		2 198	
Value adjustments and provisions		9 360		7 680
Accrued income and prepaid expenses	146		2 590	
Accrued expenses and deferred income	329			5 256
Dividend from previous year		14 000		12 000
Balance	15 239	23 360	19 442	24 936
Cash flow from equity transactions				
Balance	0	0	0	0
Net cash flow from fixed assets				
Permanent participations		0		71
Real estate		661		86
Other fixed assets		1 492		1 193
Projects		111		168
Balance	0	2 264	0	1 518

	2010		2009	
	Source of funds	Use of funds	Source of funds	Use of funds
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Net cash flow from banking operations				
Medium and long-term transactions (> 1 year)				
Other liabilities	6 499			29 168
Due from clients	2 342		501	
Mortgages	2 699			3 761
Fixed financial assets	15 747			87 008
Other assets		4 471	18 935	
Short-term transactions (<1 year)				
Due on money market paper		2 208	2 284	
Due to banks		23 159		214 935
Due to clients in the form of savings and investments		12		3
Due to clients, other	144 541		221 771	
Due from banks		188 566	31 435	
Due from clients	49 148		71 909	
Trading positions in securities and precious metals	648		245	
Net cash flow from liquid assets				
Liquid assets	7 177			5 193
Balance	228 801	218 416	347 080	340 068
Total	244 040	244 040	366 522	366 522

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.

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 advisory 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 risk

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 risk

Market risk is 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 risk is 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 overall Bank 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 87.25 (previous year 87.05), 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 Deloitte Ltd., Zurich, 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 Policies

General Policies

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:

	2010	2009
USD	0.9316	1.0341
EUR	1.2489	1.4836
GBP	1.4595	1.6695

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, including 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 31.12.2010

	Type of Collateral			Total	
	Mortgage	Other	Unsecured		
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	
Loans and advances					
Due from clients	77 158	329 976	83 373	490 507	
Mortgages					
Residential properties	370 872	5 241	147	376 260	
Office and business properties	18 677	176		18 853	
Commercial and industrial properties	47 171	502	23	47 696	
Others	4 093	12 409	1 970	18 472	
Total loans and advances	Current year	517 971	348 304	85 513	951 788
	Previous year	518 506	338 241	149 230	1 005 977
Off-balance-sheet transactions					
Contingent liabilities	2 648	18 129	805	21 582	
Irrevocable commitments			2 058	2 058	
Margin and other call liabilities			672	672	
Total off-balance-sheet transactions	Current year	2 648	18 129	3 535	24 312
	Previous year	41 812	20 255	8 125	70 192
Impaired loans					
	Gross amount owed	Estimated realisation proceeds from collateral	Net amount owed	Individual value adjustments	
Current year	36 831	19 814	17 017	16 863	
Previous year	37 051	22 248	14 803	14 775	

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

			as at 31.12.2010	as at 31.12.2009
			CHF 000s	CHF 000s
Trading positions in securities and precious metals				
Listed debt instruments			2 067	2 942
Equities			1 465	1 238
Total trading positions in securities and precious metals			3 532	4 180
Of which: securities eligible for repo transactions in accordance with liquidity regulations			0	0
Fixed financial assets	Book value as at 31.12.2010	Book value as at 31.12.2009	Fair value as at 31.12.2010	Fair value as at 31.12.2009
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Debt securities				
intended for holding until final maturity	76 234	112 505	78 405	114 423
stated at lower of acquisition cost or fair value	20 508	3	20 517	10
Equities	899	1 035	1 112	1 254
Real estate	155	0	155	0
Total investments	97 796	113 543	100 189	115 687
Of which: securities eligible for repo transactions in accordance with liquidity regulations	91 722	96 290	93 755	97 666
Permanent participations	as of 31.12.2010	as of 31.12.2009		
	CHF 000s	CHF 000s		
Without market value	1 237	1 237		
Total permanent participations	1 237	1 237		

3.3 Information about Major Permanent Participations

as at 31.12.2010

Privatbank IHAG Zürich AG holds no major permanent participations.

3.4 Permanent Participations and Fixed Assets

as at 31.12.2010

	Previous year			Current year			
	Acquisition cost	Accumulated depreciation	Book value at end of previous year	Investments	Disposals	Depreciation/ appreciation	Book value at end of year under review
	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Permanent participations							
Majority participations	150		150				150
Minority participations	1 203	-116	1 087				1 087
Total permanent participations	1 353	-116	1 237	0	0	0	1 237
Real estate							
Bank building	9 940	-940	9 000				9 000
Conversion / renovation	7 678	-7 156	522	661		-396	787
Other fixed assets							
Projects	2 690	-2 462	228	111	-406*	-210	129
IT	6 720	-5 537	1 183	1 246	-1 582*	-1 269	1 160
Furniture and fittings	1 073	-681	381	246	-144*	-176	451
Total fixed assets	28 101	-16 776	11 314	2 264	-2 132	-2 051	11 527

* 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.

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

3.5 Other Assets and Liabilities	as at 31.12.2010		as at 31.12.2009	
	Other assets	Other liabilities	Other assets	Other liabilities
	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Indirect taxes	1 086	1 066	790	1 169
Replacement values of derivative financial instruments				
Contracts on own account				
Interest rate instruments	954	413	194	0
Foreign exchange	4 466	7 755	864	3 552
Contracts on agent basis				
Equities / indices	1	1	166	166
Total derivative financial instruments	5 421	8 169	1 224	3 718
Compensation account	0	2 352	0	0
Settlement accounts	0	405	22	606
Total other assets and liabilities	6 507	11 992	2 036	5 493

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 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Book value of securities from fixed financial asset holdings that are lodged as margins with stock exchanges and brokers	14 748	17 188
liabilities / amount utilised	4 028	4 527
Book value of mortgage receivables pledged as collateral for mortgage bond loans	137 933	118 351
liabilities / amount utilised	70 241	70 241
B Lending Transactions and Repo Transactions with Securities		
	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Receivables from cash deposits in connection with securities borrowing and reverse repurchase transactions	130	60 000
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	85	59 961
Of which: securities pledged or sold onward	85	0
3.7 Information on our own Pension Fund		
	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Book value of liabilities to the pension fund	2 742	3 569
Pension fund cover ratio	108.2%	110.9%
Pension expense as a part of personnel expense	1 849*	1 759
The pension fund for the employees of Privatbank IHAG Zürich AG is operated on a defined-contribution basis.		
As in the previous year, the application of Swiss GAAP FER 16 does still not lead to a capitalization of economic benefits.		
*Not yet audited		
3.8 Outstanding Bonds		
	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Loan from the <i>Pfandbriefbank Schweizerischer Hypothekarinstitute</i>	70 000	70 000
Average interest rate	2.3714%	2.3760%

3.9 Value Adjustments and Provisions

as at 31.12.2010

	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	14 775	-320	0	86	2 322	0	16 863
Value adjustments and provisions for other business risks	10 816	-7 562	0	213	270	-1 213	2 524
Other provisions	15 655	-51	0	0	0	-1 017	14 587
Total value adjustments and provisions	41 246	-7 933	0	299	2 592	-2 230	33 974
Less value adjustments set off directly against assets	14 775						16 863
Total value adjustments and provisions as per balance sheet	26 471						17 111

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

as at 31.12.2010

as at 31.12.2009

	CHF 000s	CHF 000s
Share capital		
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
Shareholders with more than 5% of all voting rights		
IHAG Holding Corp., Zurich	50 000	50 000
	= 100%	= 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 31.12.2010

	CHF 000s
Shareholders' equity at the beginning of the year	
Paid-in share capital	50 000
General statutory reserve	52 900
Other reserves	32 668
Retained earnings	31 876
Total shareholders' equity at the beginning of the year (before appropriation of profit)	167 444
Dividends and other distributions from the previous year's net profit	– 14 000
Net profit for the current year	12 713
Total shareholders' equity at the end of the year (before appropriation of profit)	166 157
Of which: paid-in share capital	50 000
general statutory reserve	54 050
other reserves	32 668
retained earnings	29 439

	as at 31.12.2010 CHF 000s	as at 31.12.2009 CHF 000s
Eligible capital		
Paid-up capital	50 000	50 000
Disclosed reserves	87 968	86 718
Profit carried forward	13 189	16 726
Total capital and reserves	151 157	153 444
Less intangible assets	– 130	– 229
Total eligible capital	151 027	153 215

as at 31.12.2010

Required capital	Approach used	Capital adequacy requirements	
		CHF 000s	CHF 000s
Credit risk ⁽¹⁾	Standard Swiss approach, comprehensive		41 600
Of which: price risk attached to equities in the banking book ⁽²⁾		511	
Non-counterparty-related risks	Standard Swiss approach		2 808
Market risk ⁽³⁾	De minimis approach		436
Of which: related to interest instruments (general market risk)		0	
Of which: related to equities		0	
Of which: related to foreign exchange		283	
Of which: related to gold and commodities		153	
Operational risk	Basic indicator approach		7 233
General value adjustments and provisions			– 814
Total required capital			51 263
Ratio of eligible to required equity under Swiss law			2.551

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

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

⁽³⁾ 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 31.12.2010

		At sight	Due within On call	Due within 3 months	Due within 3–12 months	Due after 1–5 years	5 years	Real estate	Total
		CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s	CHF 000s
Current assets									
Liquid assets		95 001							95 001
Due from banks		140 243		292 413	10 000				442 656
Due from clients			93 887	265 812	111 358	9 450	10 000		490 507
Mortgages			79 127	309 116	21 468	28 090	23 480		461 281
Trading positions		3 532							3 532
Fixed financial assets		899				25 026	71 716	155	97 796
Total current assets	Current year	239 675	173 014	867 341	142 826	62 566	105 196	155	1 590 773
	Previous year	238 678	247 242	630 521	198 310	82 407	82 810		1 479 968
Liabilities									
Due on money market paper		89							89
Due to banks		3 040			30 000				33 040
Due to clients in the form of savings and investments			103						103
Due to clients, other		1 008 336	7 615	257 917	37 379				1 311 247
Bonds and mortgage bond loans					20 000	30 000	20 000		70 000
Total liabilities	Current year	1 011 465	7 718	257 917	87 379	30 000	20 000		1 414 479
	Previous year	1 012 501	3 622	92 225	116 969	50 000	20 000		1 295 317

3.13 Amounts Due from and to Affiliated Companies and Loans Granted to Related Persons and Entities

	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Amounts due from affiliated companies	7 792	717
Amounts due to affiliated companies	92 653	18 614
Loans granted to related persons and entities	7 303	7 426

Transactions with associated parties

Amounts due to and from associated companies relate to positive and negative current account balances and fixed advances/fixed-term deposits. 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 2.5 percentage points less than the Federal Housing Office (FHO) reference mortgage rate, but at least 0.5% per year.

3.14 Domestic and Foreign Breakdown of Assets and Liabilities	as at 31.12.2010		as at 31.12.2009	
	Domestic CHF 000s	Foreign CHF 000s	Domestic CHF 000s	Foreign CHF 000s
Assets				
Liquid assets	56 337	38 664	52 099	50 079
Due from banks	225 763	216 893	113 227	140 863
Due from clients	259 065	231 442	266 430	275 567
Mortgages	458 586	2 695	463 980	
Trading positions in securities and precious metals	2 536	996	1 821	2 359
Fixed financial assets	48 625	49 171	49 699	63 844
Permanent participations	1 237		1 237	
Fixed assets	11 527		11 314	
Accrued income and prepaid expenses	6 433		6 579	
Other assets	5 047	1 460	1 751	285
Total assets	1 075 156	541 321	968 137	532 997
Liabilities				
Due on money market paper	89		2 297	
Due to banks	1 688	31 352	30 691	25 508
Due to clients in the form of savings and investments	103		115	
Due to clients, other	471 589	839 658	693 670	473 036
Bonds and mortgage bond loans	70 000		70 000	
Accrued expenses and deferred income	6 738		6 409	
Other liabilities	10 460	1 532	4 532	961
Value adjustments and provisions	17 111		26 471	
Share capital	50 000		50 000	
General statutory reserve	54 050		52 900	
Other reserves	32 668		32 668	
Retained earnings	16 726		17 222	
Net profit	12 713		14 654	
Total liabilities	743 935	872 542	1 001 629	499 505

3.15 Assets by Country/Region	as at 31.12.2010		as at 31.12.2009	
	CHF 000s	in %	CHF 000s	in %
Europe	389 521	24.10	376 385	25.07
Other countries	151 800	9.39	156 612	10.43
Total foreign countries	541 321	33.49	532 997	35.50
Switzerland	1 075 156	66.51	968 137	64.50
Total assets	1 616 477	100.00	1 501 134	100.00

3.16 Breakdown of Assets and Liabilities by Currency

as at 31.12.2010

	CHF 000s	EUR (in CHF 000s)	USD (in CHF 000s)	Other (in CHF 000s)	Total CHF 000s
Assets					
Liquid assets	55 215	39 592	81	113	95 001
Due from banks	63 976	264 919	50 219	63 542	442 656
Due from clients	266 240	162 085	53 764	8 418	490 507
Mortgages	456 338	4 943			461 281
Trading positions in securities and precious metals	3 540	6	-14		3 532
Fixed financial assets	57 740	39 371	685		97 796
Permanent participations	1 237				1 237
Fixed assets	11 527				11 527
Accrued income and prepaid expenses	5 744	516	166	7	6 433
Other assets	6 500	6	1		6 507
Total on-balance-sheet assets	928 057	511 438	104 902	72 080	1 616 477
Delivery claims from foreign exchange spot, forward and option transactions	114 104	107 839	130 630	46 305	398 878
Total assets	1 042 161	619 277	235 532	118 385	2 015 355
Liabilities					
Due on money market paper	13	69	3	4	89
Due to banks	30 005	1 561	1 016	458	33 040
Due to clients in the form of savings and investments	103				103
Due to clients, other	562 653	452 950	207 619	88 025	1 311 247
Bonds and mortgage bond loans	70 000				70 000
Accrued expenses and deferred income	6 673	57	6	2	6 738
Other liabilities	11 992				11 992
Value adjustments and provisions	17 111				17 111
Share capital	50 000				50 000
General statutory reserve	54 050				54 050
Other reserves	32 668				32 668
Retained earnings	16 726				16 726
Net profit	12 713				12 713
Total on-balance-sheet liabilities	864 707	454 637	208 644	88 489	1 616 477
Delivery obligations from foreign exchange spot, forward and option transactions	182 057	163 836	28 181	28 094	402 168
Total liabilities	1 046 764	618 473	236 825	116 583	2 018 645
Net position per currency	-4 603	804	-1 293	1 802	-3 290

4. Notes to Off-Balance-Sheet Transactions

4.1 Breakdown of Contingent Liabilities	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Loan collateral guarantees	12 812	18 434
Warranty bonds	3	353
Capital protection guarantees	8 767	10 415
Total	21 582	29 202

4.2 Contingent Credits as at 31.12.2010

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 31.12.2010

	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
Interest instruments						
Swaps	954	413	112 000	0	0	0
Foreign exchange / precious metals						
Forward contracts	2 654	2 797	151 205	0	0	0
Combined interest / currency swaps	1 762	1 508	90 085	44	3 444	155 665
Options (OTC)	6	6	2 891	0	0	0
Equity securities / indices						
Options (OTC)	1	1	519	0	0	0
Total before netting agreements						
Current year	5 377	4 725	356 700	44	3 444	155 665
Previous year	1 156	933	132 000	68	2 785	197 905
Total after netting agreements						
Current year	5 377	4 725		44	3 444	
Previous year	1 156	933		68	2 785	

4.4 Breakdown of Fiduciary Transactions	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Fiduciary transactions with other banks	260 410	336 386
Fiduciary loans and other fiduciary financial transactions	9 203	13 046
Total	269 613	349 432

4.5 Breakdown of Assets under Management	as at 31.12.2010	as at 31.12.2009
	CHF 000s	CHF 000s
Assets held in collective investment schemes managed by the Bank	0	60 678
Assets held under portfolio management mandates	548 041	594 393
Other assets under management*	3 704 945	3 486 912
Total assets under management (incl. double counting)	4 252 986	4 141 983
Of which: double counted	0	60 537
Net inflow of new money	528 007	725 793

* 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 (lombard) 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	2010	2009
	CHF 000s	CHF 000s
Foreign exchange and banknotes	6 392	4 767
Securities	807	2 017
Interest rate derivatives	413	194
Total	7 612	6 978

5.3 Breakdown of Personnel Expenses	2010	2009
	CHF 000s	CHF 000s
Salaries	16 088	15 712
Social costs	3 807	3 855
Other personnel costs	447	637
Total	20 342	20 204

5.4 Breakdown of Other Operating Expenses	2010	2009
	CHF 000s	CHF 000s
Permits and related costs	662	750
IT, equipment, furniture	2 342	2 253
Other business expenses	4 339	4 537
Total	7 343	7 540

5.5 Additional Explanatory Notes

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 2,322,000 were made against the income statement during the reporting year to cover impaired loans. Meanwhile, tied provisions of CHF 1,213,000 and general provisions of CHF 1,000,000 were written back under extraordinary income.

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

There were no upward revaluations of fixed assets during the year under review.

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

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 2010.

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 2010 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

Thomas Stähli
Licenced audit expert

Zurich, 17 March 2011

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