

PKB PRIVATBANK AG

2007 ANNUAL REPORT 50TH YEAR OF ACTIVITY

Board of Directors	Patry Jean ¹⁾	Veyrier (GE)	<i>Chairman</i>
	Jesi Ferrari Maurizio ¹⁾²⁾	Lugano (TI)	<i>Vice-Chairman</i>
	Zari Malacrida Fernando ¹⁾	Gentilino (TI)	<i>Vice-Chairman</i>
	Fontana Benedetto	Prato Leventina (TI)	
	Hauser Dieter ²⁾	Zumikon (ZH)	
	Rochat Jean-Philippe ²⁾	Épalinges (VD)	
	Spadafora Giuseppe	Milano (I)	
	Spiess Giangiorgio ¹⁾³⁾	Lugano (TI)	(until April 24, 2008)
	Trabaldo Togna Massimo	Milano (I)	
Tronconi Augusto	Lugano (TI)		
Secretary	Delcò Edio		
Internal Audit	Corti Emilio		<i>First Internal Auditor</i>
	Treichler Sandro		<i>Internal Auditor</i>
	Mattioli Massimo		<i>Internal Auditor</i>
Statutory Auditors Group Auditors	Ernst & Young SA		
	Ernst & Young SA		
General Management	Trabaldo Togna Umberto		<i>President</i>
	Coda Nunziantie Ferdinando		<i>General Manager</i>
	Delcò Edio		<i>General Manager</i>
	Soncini Luca		<i>General Manager</i>
	Borsetti Giovanni		<i>Executive Vice President</i>
	Tonella Enrico		<i>Executive Vice President</i>

¹⁾ Members of the Executive Committee

²⁾ Members of the Audit Committee

³⁾ Following the decisions of the Shareholders' Meeting and of the Board of Directors of April 24, 2008



Members of the General Management

Senior Vice Presidents

Bernasconi Florio
Berti Roberto
Bianchi Ermanno
Croce Pierluigi
Dolfi Francesco
Graves Anthony
Jaquet Raffaella
Nocchi Stefano
Pasqualini Luciano
Parmeggiani Luca
Rodriguez Luigi

First Vice Presidents

Algisi Roberto
Amann Calamida Sabine
Arnold Felix
Benz Christoph
Bonacina Paolo
Ceribelli Lucio
Grassi René
Pisciotta Antonino
Rickenbach Giovanni
Spannagel Rolf
Talleri Marco

Vice Presidents

Dosi Delfini Nicolò
Duarte Villela Heitor
Kundert Hans
Fumagalli Vittorio
Maltese Stefano
Marcotullio Stefano
Nesti Vasco
Petrucci Pierluigi
Porter Nicholas
Radaelli Luca
Reichlin Carlo
Sala Mario
Scarmignan Michele
Vincentelli Sergio

Geneva Branch Manager

Senior Vice President

Caracciolo di Vietri Gennaro

Zurich Branch Manager

Senior Vice President

Kaufmann René

Subsidiary Manager PKB Privatbank Ltd – Antigua

First Vice President in Charge

Lema Norberto



Untitled LO 373, 2007
Oil, acrylic and cloth on canvas, 122 x 122 cm

PKB Privatbank AG collection

Laura Owens was born in 1970 in Euclid (Ohio). After studying at the Rhode Island School of Design, she moved in 1992 to Los Angeles, where she now lives and works, to continue her studies at the California Institute of the Arts.

Laura Owens belongs to an international movement in the arts which, since the early 1990s, has been responsible for the return to a style of painting based on a mixture of the abstract and the figurative.

In recent years, her works have been enriched by new images and colour schemes. The shapes with which she likes to represent her favourite subjects – animals and, more recently, the human figure – have become freer and more fluid. Cultivating a taste for decorative detail, the artist captures on canvas echoes of imaginary worlds inspired by the painting of Matisse, wallpaper and fabric designs, and classical and oriental art (particularly Chinese and Japanese landscape painting).

In her newer works, rounded, sinuous forms prevail over geometrical structures. The artist plays with space, often bringing her figures into the foreground and working on them with great attention to detail, but never losing sight of the general composition, which is always harmonious and never lapses into self-satisfaction.

Colour has always played a fundamental part in Laura Owens's work, but in her more recent paintings there is really no limit to the freedom and skill with which she uses her palette. Colour narrates and represents everything: her readiness to experiment with every canvas and every drawing always produces surprising results.

Combining abstract elements and classical representation, Laura Owens has created a very personal idiom, which is difficult to theorize about, but is likely to influence the younger generation of painters, especially in America.

At only thirty-three years of age, Laura Owens held her first public exhibition in 2003 at the Museum of Contemporary Arts (MOCA) in Los Angeles. In 2006 and 2007, her work was featured by some of Europe's major contemporary art institutions, including the Zurich Kunsthalle, the Camden Art Centre in London and the Bonnefanten Museum in Maastricht. Her work is represented in the major public and private contemporary art collections.



Untitled LO 370
Courtesy of Studio Guenzani

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

Thanks to favorable global economic conditions in 2007, the growth phase continued in the leading industrialized economies. Gross domestic product rose by 2.1% in the USA, 3.2% in the UK and 2.7% in the Euro zone and Switzerland.

Despite the significant increase in the price of the major commodities, official inflation rates remained relatively subdued.

Trends in the international financial markets were severely conditioned by the US sub-prime mortgage crisis, the first symptoms of which emerged in February followed by an increasingly rapid deterioration from the summer onwards.

In an attempt to curb the spread of the financial markets crisis, the US Federal Reserve repeatedly cut borrowing costs, lowering the Fed Funds rate from 5.25% to 4.25%. However, the European Central Bank, the Bank of England, the Swiss National Bank and the Bank of Japan all moved in the opposite direction, concerned by the emergence of inflation signs.

In the international fixed-income markets, these factors gave rise to a period of violent swings: yields on US dollar, Euro and Swiss franc-denominated 10-year government bonds initially rose during the first half of the year driven by anxieties over inflation, before falling back in the second half to end the year below the January level influenced by fears that a financial crisis triggered by the US sub-prime mortgage debacle could spread to the real economy, driving it into recession. In the context of a flight to quality, the yield spread between sovereign debt and corporate issues widened to worrisome levels.

Despite the sharp fallbacks in the summer and autumn, equity markets, with the exception of Japan, generally produced a positive performance. Emerging markets, in particular, enjoyed a banner year.

Foreign exchange markets were marked by a persistent weakness of the US dollar against all leading currencies.

In 2007, the net profit of PKB increased by 12% to CHF 33.3 million. This positive result was achieved thanks to an increase in all the main revenue items (net interest income +24%, net commissions +3%, trading results +7%) and to a tight control of costs.

2007 also saw a reinforcement of the internal structure of PKB with the establishment of an Audit Committee at the Board of Directors level, the appointment of Giuseppe Spadafora, Managing Director and General Manager of Cassa Lombarda SpA, as a new Director and a reorganization of the General Management involving the creation of the new functions of Chief Financial Officer and Chief Risk Officer, held by Edio Delcò and Luca Soncini respectively.

Taking note of the wish of Mr. Giangiorgio Spiess, member of the Board of Directors and of the Executive Committee of PKB since 1996, to not be re-elected for a new mandate, the General Meeting of Shareholders expressed to him its deepest appreciation for his precious past collaboration and renewed the mandate of all other directors.

We should like to thank our clients for the trust they have placed in the Bank, and the Bank's management and all staff for their excellent work.

For the Board of Directors
Chairman
Jean Patry

HIGHLIGHTS – KEY FIGURES AS AT DECEMBER 31, 2007

	AMOUNTS IN CHF	PKB PRIVATBANK AG
Gross profit		49.739.301,51
Depreciation, value adjustments, provisions		6.450.838,71
Net income		33.302.950,00
<i>of which proposed dividend</i>		<i>25.000.000,00</i>
Shareholders' equity as per balance sheet		251.631.628,85
Shareholders' equity as per Banking Law		317.914.557,57
Number of employees		164

COMMENTS ON THE BALANCE SHEET

Balance sheet total

As at December 31, 2007 total assets amounted to CHF 959,2 million against liabilities of CHF 682,6 million. Shareholders' equity, including net profit for the year, therefore totalled CHF 276,6 million. The increase in the balance sheet total with respect to the previous year was CHF 16,9 million, or 1,8%.

Assets

Liquid assets	This item includes cash plus clearing and postal account balances. The total of CHF 25,6 million is well above the legal requirement for primary liquidity.
Due from banks	Amounts held with banks were increased by CHF 34,1 million (+10,5%) from CHF 324,1 million to CHF 358,2 million. These are funds placed with major banks in OECD countries. Time deposits accounted for CHF 220,1 million, due within 90 days, while sight deposits amounted to CHF 138,1 million.
Due from customers	Loans to customers registered a decrease of 8,7% from CHF 423,2 million to CHF 386,2 million, while average exposure to debtors rose by 3,5% compared to the previous year. As at December 31, 2007, secured loans represented 96,0% of the total, an increase compared to the 94,9% at December 31, 2006.
Securities and precious metals trading portfolios	The balance sheet value of this item rose from CHF 1,1 million at December 31, 2006 to CHF 3,4 million as at December 31, 2007, an increase of CHF 2,3 million. The securities portfolio at the year-end comprised CHF 1,9 million of fixed-income securities and CHF 1,5 million of equities.
Financial Investments	As at December 31, 2007 financial investments totalled CHF 30,8 million against CHF 34,4 million the preceding year. Investments in funds increased at CHF 11,3 million (CHF 10,2 million at December 31, 2006). Fixed income securities were CHF 19,5 million (CHF 24,2 million at December 31, 2006), of which CHF 12,5 million pledged in favour of correspondent banks (CHF 11,5 million at December 31, 2006).
Participations	The bank holds the entire share capital of PKB Privatbank Ltd, St. John's, Antigua and of Valuevalor AG, Lugano. This entry also includes minority shareholdings in Cassa Lombarda Spa, Milan (30%), Anthilia Capital Partner Spa, Milano (40%), Agefin SpA, Milan (5,6%), Euroceanica (UK) Ltd, London (9,3%), Rasini & C. SA, Lugano (30%) and EIH Endurance Investments Holding SA, Lugano (25%).

COMMENTS ON THE BALANCE SHEET

Assets	
Fixed assets	Decreased from CHF 41,3 million to CHF 37,7 million (-CHF 3,6 million, or 8,7%). CHF 33,8 million (CHF 35,0 as at December 31, 2006) represent tangible fixed assets that include the bank's buildings along with fixtures and furniture, any capitalised renovation works and computer equipment. Intangible fixed assets of CHF 3,9 million correspond to the not yet amortised goodwill resulting from the merger by incorporation with Banca Monte Paschi (Suisse) SA.
Other assets	Other assets increased to CHF 12,1 million as at December 31, 2007 from CHF 7,7 million at the end of the preceding year. This item consists mainly in positive replacement values that amount to CHF 12,0 million. Positive replacement values relate to derivative financial instruments, taken out for the bank's own account or for account of clients, and represent the claims on counterparties.
Liabilities	
Due to banks	Amounts due to banks increased from CHF 129,2 million to CHF 147,7 million (+CHF 18,5 million, or 14,3%).
Due to customers	Client deposits decreased by CHF 19,4 million, or by 4,5% (CHF 413,0 million at December 31, 2007 compared to CHF 432,4 million at previous yearend. Savings and investment accounts decreased (from CHF 1,0 million to CHF 0,6 million) as well as other customer deposits (- CHF 18,9 million).
Other liabilities	This item amounted to CHF 16,3 million as at December 31, 2007 (+ CHF 5,6 million, or 52,7%). It comprises predominantly the Bank's liability for indirect taxes (CHF 5,7 million) as well as negative replacement values on derivative instruments (CHF 10,6 million), representing its liability to counterparties.
Shareholders' equity	Shareholders' equity as per balance sheet totals CHF 243,3 million, (excluding reserves for general banking risks and the year's net profit). After approval by the Shareholders' Meeting of the Board of Directors' proposal for the allocation of profits, shareholders' equity on the balance sheet will amount to CHF 251,6 million, while shareholders' equity calculated in accordance with the Federal Banking Law will reach CHF 317,9 million.

COMMENTS ON THE INCOME STATEMENT

Revenues	<p>A review of the various income statement items shows that the interest margin, at CHF 22,1 million, increased by 23,6% with respect to that of the previous year. This result is primarily due to the increase in interest rates on the main currencies, a steeper yield curve on short-term maturities and to a lesser extent to an increase in the average credit volumes to clients.</p> <p>Commissions on credit transactions (+46,2%) and on other services (+22,3%) both increased, while commissions on securities brokerage and investments were 3,8% lower. Overall, net revenues from commissions rose from CHF 51,4 million in 2006 to CHF 53,0 million in 2007 (an increase of CHF 1,6 million, or 3,1%).</p> <p>The result on trading operations reached CHF 9,1 million compared with CHF 8,4 million as at December 31, 2006 (+7,3%). The increase is attributable to securities trading (+ CHF 0,6 million, or 37,8%).</p> <p>The other ordinary profits stood at CHF 5,6 million compared to CHF 4,5 million for the previous financial year (+ CHF 1,1 million, equal to 24,6%).</p> <p>The difference is primarily due to income on shareholdings which increased from CHF 3,4 million as at December 31, 2006 to CHF 4,7 million at December 31, 2007 following the increase in the dividend paid by PKB Privatbank Ltd, Antigua.</p> <p>Total revenues can be broken down as follows:</p> <table><tr><td>24,7%</td><td>from interest operations</td></tr><tr><td>58,9%</td><td>from commissions and services</td></tr><tr><td>10,1%</td><td>from trading activities</td></tr><tr><td>6,3%</td><td>from other ordinary income.</td></tr></table>	24,7%	from interest operations	58,9%	from commissions and services	10,1%	from trading activities	6,3%	from other ordinary income.
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6,3%	from other ordinary income.								
Expenses	<p>Staff expenses were virtually unchanged at CHF 30,3 million for the year ending December 31, 2007 compared to CHF 30,4 million for the year 2006. General administrative expenses rose by CHF 0,4 million (+4,5%) from CHF 9,5 million in 2006 to CHF 9,9 million for the year to December 31, 2007.</p>								
Gross profit	<p>The gross profit amounts to CHF 49,7 million, an increase of CHF 7,4 million (+17,3%) compared to the 2006 financial year.</p>								
Depreciation on fixed assets	<p>The total amount of depreciation stands at CHF 6,1 million, increasing compared to the previous period (+ CHF 0,8 million).</p>								
Provisions, valuation adjustments and losses	<p>During the year 2007, provisions were made for a total of CHF 64,280 while losses incurred were CHF 253,851. Compared to 2006, this represented a lower cost of CHF 1,9 million.</p>								
Extraordinary income	<p>Of the total of CHF 0,4 million, CHF 0,1 million relates to the release of provisions no longer required.</p>								
Extraordinary expenses	<p>The amount of CHF 0,5 million relates to the increase in the Reserves for general banking risks.</p>								
Net profit for the year	<p>The net profit for the year amounts to CHF 33,3 million. Compared with the net profit of the previous year, CHF 29,7 million, it shows an increase of CHF 3,6 million or 12,0%.</p>								

BALANCE SHEET AS AT DECEMBER 31, 2007

Assets	AMOUNTS IN CHF	2007	2006
Liquid assets		25.681.013,97	16.359.445,07
Money market instruments		735.287,60	78.257,78
Due from banks		358.216.985,13	324.189.895,65
Due from customers		349.685.567,32	388.363.516,44
Mortgage loans		36.599.774,06	34.845.700,27
Securities and precious metals trading portfolios		3.421.667,94	1.117.808,98
Financial investments		30.843.905,89	34.470.014,70
Participations		97.259.495,28	88.932.443,23
Fixed assets		37.720.921,22	41.342.061,05
Accrued income and prepaid expenses		6.857.777,09	4.924.577,80
Other assets		12.195.442,33	7.697.218,88
Total assets		959.217.837,83	942.320.939,85
<i>Total subordinated assets</i>		<i>1.013.447,02</i>	<i>2.523.410,61</i>
<i>Total due from group companies and significant shareholders</i>		<i>63.042,11</i>	<i>4.515.541,42</i>

Liabilities	AMOUNTS IN CHF	2007	2006
Due to banks		147.734.763,99	129.224.209,19
Due to customers on savings and deposit accounts		622.415,63	1.066.298,59
Due to customers, other		412.435.634,28	431.371.821,79
Cash bonds		0,00	0,00
Accrued expenses and deferred income		12.248.983,31	9.562.796,82
Other liabilities		16.392.498,75	10.732.604,86
Value adjustments and provisions		24.241.913,02	23.668.101,38
Reserves for general banking risks		68.910.000,00	68.366.428,37
Share capital		16.000.000,00	16.000.000,00
General statutory reserves		30.800.000,00	28.350.000,00
Other reserves		196.200.000,00	193.900.000,00
Profit carried forward		328.678,85	361.120,70
Profit for the year		33.302.950,00	29.717.558,15
Total liabilities		959.217.837,83	942.320.939,85
<i>Total subordinated liabilities</i>		<i>0,00</i>	<i>0,00</i>
<i>Total due to group companies and significant shareholders</i>		<i>74.285.897,98</i>	<i>96.572.929,39</i>

OFF - BALANCE SHEET OPERATIONS

	AMOUNTS IN CHF	2007	2006
Contingent liabilities		119.402.787,74	70.370.660,71
Irrevocable commitments		1.660.321,00	5.837.716,00
Uncalled liabilities to pay in capital or additional capital on shares		8.559.411,94	7.917.688,12
Derivative instruments:			
Positive replacement value		15.032.482,04	10.023.183,31
Negative replacement value		13.685.959,57	7.731.176,86
Contract volume		899.259.909,74	631.209.144,78
Fiduciary transactions		2.064.397.364,09	1.745.808.103,57

INCOME STATEMENT

	AMOUNTS IN CHF	2007	2006
Results from interest activities			
Interest and discount income		30.446.716,09	22.723.454,59
Interest and dividend income on trading portfolios		14.769,06	41.310,57
Interest and dividend income on financial investments		676.467,04	880.146,56
Interest expense		-8.955.837,79	-5.708.039,60
Subtotal: Net interest income		22.182.114,40	17.936.872,12
Results from commission and service fee activities			
Commission income on lending activities		1.867.592,32	1.277.618,15
Commission income from securities and investment business		46.521.732,70	48.371.265,20
Other commission income		14.536.777,97	11.883.314,53
Commission expenses		-9.870.670,72	-10.112.859,24
Subtotal: Results from commission and service fee activities		53.055.432,27	51.419.338,64
Results from trading operations		9.120.712,29	8.495.841,28
Other ordinary results			
Income from disposal of financial investments		174.771,65	50.618,63
Income from participations		4.747.519,26	3.458.750,00
Real estate income		809.456,60	808.675,00
Other ordinary income		191,24	252.498,71
Other ordinary expenses		-35.001,93	-191,24
Subtotal: Other ordinary results		5.696.936,82	4.570.351,10
Operating expenses			
Personnel expenses		-30.361.790,86	-30.497.791,95
General administrative expenses		-9.954.103,41	-9.526.795,97
Subtotal: Operating expenses		-40.315.894,27	-40.024.587,92
Gross profit		49.739.301,51	42.397.815,22
Depreciation and write-offs on fixed assets		-6.132.707,81	-5.313.005,97
Value adjustments, provisions and losses		-318.130,90	-2.250.834,95
Result before extraordinary items and taxes		43.288.462,80	34.833.974,30
Extraordinary income		429.471,80	6.003.010,85
Extraordinary expenses		-549.011,60	-2.387.000,00
Taxes		-9.865.973,00	-8.732.427,00
Net profit for the year		33.302.950,00	29.717.558,15

DISTRIBUTION OF PROFIT

Proposal of the Board of Directors	AMOUNTS IN CHF	2007	2006
Profit for the year		33.302.950,00	29.717.558,15
Profit carried forward from previous year		328.678,85	361.120,70
Disposable profit		33.631.628,85	30.078.678,85
Profit distribution			
– Allocation to general statutory reserves		2.500.000,00	2.450.000,00
– Allocation to other reserves		5.800.000,00	2.300.000,00
– Dividend distribution		25.000.000,00	25.000.000,00
Profit carried forward		331.628,85	328.678,85

1. Operations and staff

PKB Privatbank AG is present in Lugano (registered office), where it operates as a full-service bank and in Geneva and Zurich where it provides private banking services. The bank's principal activities include portfolio management and all related services, «market making» on the primary Swiss franc bond market, foreign exchange trading and commercial operations.

The number of employees at the end of 2007 was 164 (2006: 155).

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

2. Accounting and valuation principles used

<i>Accounting and valuation principles</i>	The accounts are established by recording operations on the date they are transacted. The accounting principles set out below have been used.																					
<i>Foreing funds and currencies</i>	Valuation at year-end rates. Exchange differences have been booked in the income statement under «Results from trading operations». Exchange rates used for the main currencies were as follows: EUR 1,6617 (2006: 1,6025); USD 1,1299 (2006: 1,2150).																					
<i>Credits and general liabilities</i>	Valuation at nominal value.																					
<i>Securities and precious metals trading portfolios</i>	Valuation at market price.																					
<i>Financial investments</i>	Shares: at market value at the end of the financial year, however not exceeding the acquisition price. Fixed-income securities: the difference between the acquisition price and the redemption value is distributed over the number of years between the date of acquisition and the maturity date.																					
<i>Participations</i>	Valuation at acquisition price, after charging any economically necessary depreciation.																					
<i>Fixed assets</i>	Stated at acquisition cost after necessary deductions for ordinary and extraordinary depreciation. Depreciation is charged using the straight-line method. The periods and rates for ordinary depreciation are as follows:																					
	<table border="1"> <tbody> <tr> <td>Buildings</td> <td>50 years</td> <td>2,00 %</td> </tr> <tr> <td>Renovation expenses</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Equipment</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Furniture</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Business equipment and vehicles</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>IT Hardware/Software</td> <td>3 years</td> <td>33,33 %</td> </tr> <tr> <td>Intangibles</td> <td>5 years</td> <td>20,00 %</td> </tr> </tbody> </table>	Buildings	50 years	2,00 %	Renovation expenses	3 years	33,33 %	Equipment	3 years	33,33 %	Furniture	3 years	33,33 %	Business equipment and vehicles	3 years	33,33 %	IT Hardware/Software	3 years	33,33 %	Intangibles	5 years	20,00 %
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IT Hardware/Software	3 years	33,33 %																				
Intangibles	5 years	20,00 %																				
<i>Reserves for general banking risks</i>	Reserves for general banking risks include a taxed sum of CHF 28.500.000,00.																					
<i>Credit risks</i>	Where necessary, the bank makes appropriate provisions which are booked under «Value adjustments and provisions».																					
<i>Doubtful interest</i>	Interest and commissions overdue by 90 days are not recognized as revenues but are booked under provisions. The concerned loans are considered as non-performing.																					
<i>Revenues from trading activities</i>	These revenues are recorded in the income statement before deduction of refinancing expenses.																					
<i>Contingent liabilities, irrevocable commitments, payment commitments and guarantee liabilities</i>	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under «Value adjustments and provisions».																					

<i>Derivative financial instruments</i>	Valuation is effected at market prices (marked-to-market). The use of derivative financial instruments for the bank's own account is mainly for hedging purposes and only marginally for trading operations within limits established by internal regulations.
<i>Principles applied in the identification of risk of loss and calculation of value adjustments</i>	Credits are assessed regularly, at least once a year. Where the risk warrants it, the assessment is carried out more frequently and in a timely manner, particularly for non-performing loans. Where a need is identified to raise provisions for the unsecured portion, these are booked immediately.
<i>Collateral assets for loans</i>	The realizable value is calculated on the basis of the market price or sale value, from which the costs of disposal and refinancing are deducted.
<i>Risk management</i>	<p>During the year under review, an internal risk assessment process was launched, involving all areas of the Bank, and a review of corporate risk governance was carried out. The aim of the risk assessment process is to identify all major risks, using the standard risk categories adopted by the banking sector, to define the methods for measuring them and to take action to mitigate them, if necessary, in order to remain within the risk appetite limits set by the Bank's governing bodies.</p> <p>Concerning structure and governance aspects, the main development was the creation by the Board of Directors, in accordance with the Federal Banking Commission's new Circular 06/6, of an Audit Committee comprising three Board members, the role of which includes oversight of the risk management process.</p> <p>At the General Management level, as part of an internal reorganization, the Risk Management and Compliance functions were merged into a single unit, for which a member of the General Management is responsible.</p> <p>A Risk Committee was also established and charged with consolidating risks at the Co-parfin Group level, in accordance with consolidated supervision requirements.</p> <p>The Risk Committee meets at least once a quarter to review the quarterly risk reports, take any measures required and refer any necessary matters to the General Management, Audit Committee and Board of Directors.</p> <p>The Bank has its own risk management regulations which set out its overall approach to risk together with the organization, duties and authorities for all types of risks of significance at the PKB Group level. The regulations describe and set rules for risks of different types, namely credit, market, liquidity, operational and compliance. There are specific rules for the management, control and monitoring of each type of risk. Limits are set by the Board of Directors as a percentage of regulatory capital in order to limit potential losses.</p> <p>The level of coverage by regulatory capital is significantly higher than that stipulated by law.</p>
	<p><u><i>Credit risk</i></u></p> <p>Credit risk is defined as the possibility that a counterparty may be unable to meet its contractual obligations, thereby causing the Bank to incur a loss.</p> <p>The Risk Committee, in conjunction with the General Management, monitors credit risks under the sub-categories of counterparty, country and concentration risk.</p> <p>In this area, the Bank has adopted rigorous procedures and rules for the granting of credits, setting approval limits for the various functional and managerial levels.</p> <p>Counterparties are subject to a strict quantitative and qualitative assessment, and the principle of the segregation of roles is applied consistently. The same principles are also used in the analysis of collateral provided by clients and in assessing borrowers' debt-service capability.</p> <p>Risks on financial counterparties are monitored by a dedicated unit, and form part of the consolidated review by the Risk Committee.</p>

Market risk

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

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

Risk consolidation is the responsibility of the Risk Committee.

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

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

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

Interest rate risk

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

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

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

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

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

Liquidity and funding risk

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

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

Operational risk

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

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

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

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

Legal risk

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

Reputational and compliance risks

Mitigation of reputational risk is achieved through constant training and actions to increase awareness of staff at all levels, through a clear definition of operational processes and responsibilities, and by disseminating a corporate culture based on irreproachable activity and the highest standards of professional ethics.

During the year under review, a PKB Charter of Values was also introduced. This was presented and discussed at all levels throughout the Bank.

The Bank has a Legal and Compliance department that covers all aspects of compliance.

Bank policy in the use of derivative financial instruments

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

3. Information on the balance sheet

Assets pledged or assigned to secure own liabilities and assets subject to ownership reservation	AMOUNTS IN CHF/000	2007	2006
Securities pledged		12.502	11.504
Total		12.502	11.504

Liabilities to own pension plans	AMOUNTS IN CHF/000	2007	2006
Total		18.261	24.528

The Bank's employees are affiliated to an autonomous and independent social welfare institution, in accordance with legal requirements governing occupational pension schemes in Switzerland (LPP). The rules of the fund are based on those of a defined contributions scheme. Pension liabilities are calculated each year by an actuary. The bank accounts for its contributions to the employees' occupational pension scheme as expenses for the financial year concerned. To complete the occupational pension arrangements under the terms of federal law, a foundation has been established of a social nature – i.e. corporate, autonomous and independent. This foundation may provide assistance to employees or finance the employer's contributions.

Reserve for employer's contributions	AMOUNTS IN CHF/000			
	Nominal value as at Dec. 31, 2007	Usage waived as at Dec. 31, 2007	Other value adjustments as at Dec. 31, 2007	Balance sheet as at Dec. 31, 2007
Corporate pension scheme	1.300	1.300		
Pension scheme in surplus				
Total	1.300	1.300		

Economic benefits/liabilities and costs of pensions	AMOUNTS IN CHF/000				
	Surplus/shortfall as at Dec. 31, 2006	Company's economic benefit/liability as at Dec. 31, 2007	Contributions offset during 2007	Contributions paid during the period and booked as personnel expenses	
				2006	2007
Corporate pension scheme	1.026				
Pension scheme in surplus				2.264	2.629
Total	1.026			2.264	2.629

The foundation, registered under the terms of the law on occupational pension schemes, does not represent any benefit or liability to the Bank and has no impact on either its balance sheet or income statement.

Value adjustments and provisions / Reserves for general banking risks								AMOUNTS IN CHF/000	
	Balance end of preceding year (Dec. 31, 2006)	Specific usage and reversals	Change in definition of purpose (reclassifications)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversals credited to income statement	Balance end of current year (Dec. 31, 2007)		
Value adjustments and provisions for default risks (credit and country risks)	6.173	-438		33	64	-107	5.725		
Value adjustments and provisions for other business risks	11.920						11.920		
Restructuring provisions	53	-13	-3			-37	0		
Provisions for taxes and deferred taxes	6.042		3	-8	1.080		7.117		
Total value adjustments and provisions	24.188						24.762		
Less: Value adjustments directly netted with assets	520						520		
Total value adjustments and provisions as per balance sheet	23.668						24.242		
Reserves for general banking risks	68.366				544		68.910		

Breakdown of other assets and other liabilities	AMOUNTS IN CHF/000			
	2007		2006	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	12.003	10.656	7.446	5.155
Indirect taxes	164	5.675	193	5.546
Other	28	61	58	32
Total	12.195	16.392	7.697	10.733

Statement of changes in shareholders' equity	AMOUNTS IN CHF/000
Shareholders' equity at January 1, 2007	
<i>Share capital</i>	16.000
<i>less share capital not paid-in</i>	
Share capital paid-in	16.000
General legal reserve	28.350
Other reserves	193.900
Reserves for general banking risks	68.366
Disposable profit	30.079
Total shareholders' equity as at January 1, 2007 (before distribution of profit)	336.695
+ Capital increase	
+ Premium over par value	
+ Other allocations	544
– Dividend and other distributions of retained earnings brought forward	–25.000
+ Profit for the year	33.303
Total shareholders' equity as at December 31, 2007 (before distribution of profit)	345.542
Thereof:	
<i>Share capital</i>	16.000
<i>less share capital not paid-in</i>	
Share capital paid-in	16.000
General legal reserve	30.800
Other reserves	196.200
Reserves for general banking risks	68.910
Disposable profit	33.632

Amounts due from and due to group companies as well as loans and exposure to members of the bank's governing bodies	AMOUNTS IN CHF/000	2007	2006
Amount receivable from group companies		35.898	17.359
Liabilities to group companies		5.710	5.987
Loans to bank's governing bodies		3.207	4.204

Capital structure	AMOUNTS IN CHF/000	2007			2006		
		Total par value	Number of shares	Dividend bearing capital	Total par value	Numbers of shares	Dividend bearing capital
Share capital	16.000	16.000	16.000	16.000	16.000	16.000	
Total capital	16.000	16.000	16.000	16.000	16.000	16.000	
Authorized capital							
of which completed capital increases							

Significant shareholders	AMOUNTS IN CHF/000	2007		2006	
		Par value	Participation in %	Par value	Participation in %
Voting shareholder: Coparfin S.A., Luxembourg		16.000	100.00	16.000	100.00

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

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

4. Information on off-balance sheet transactions

Breakdown of fiduciary transactions	AMOUNTS IN CHF/000	2007	2006	CHANGE
Fiduciary transactions with third-party banks		1.674.118	1.350.042	+324.076
Fiduciary transactions with banks of the group and associated banks		341.804	342.846	-1.042
Loans and other financial transactions		48.475	52.920	-4.445
Total		2.064.397	1.745.808	+318.589

5. Information on the income statement

Breakdown of results from trading operations	AMOUNTS IN CHF/000	2007	2006	CHANGE
Foreign exchange and bank notes		6.973	6.928	+45
Precious metals		3	13	-10
Securities		2.147	2.425	-278
Other		-2	-870	+868
Total		9.121	8.496	+625

REPORT OF THE STATUTORY AUDITORS

To the General Meeting
of PKB Privatbank AG, Lugano

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes: pages 12-25) of PKB Privatbank AG for the year ended December 31, 2007.

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

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

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

Lugano, March 14th, 2008

Ernst & Young SA

Mario Mosca
Swiss Certified Accountant
(In charge of the audit)

Enza Luongo
Swiss Certified Accountant

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated companies:

PKB Privatbank AG, Lugano

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

Parent company

Subsidiary company (100%)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2007

Assets	AMOUNTS IN CHF	2007	2006
Liquid assets		25.681.737,09	16.360.163,06
Money market instruments		735.287,60	78.257,78
Due from banks		815.424.534,12	745.090.494,23
Due from customers		356.275.603,34	389.373.311,34
Mortgage loans		36.599.774,06	34.845.700,27
Securities and precious metals trading portfolios		3.421.667,94	1.117.808,98
Financial investments		44.879.145,74	49.854.194,12
Unconsolidated participations		51.475.452,33	40.899.685,06
Tangible fixed assets		60.713.144,83	62.797.177,95
Intangible assets		13.649.243,39	19.472.077,03
Accrued income and prepaid expenses		9.193.360,94	5.731.967,74
Other assets		12.786.544,76	8.330.387,61
Total assets		1.430.835.496,14	1.373.951.225,17
<i>Total subordinated assets</i>		<i>1.013.447,02</i>	<i>2.523.410,61</i>
<i>Total due from group companies and significant shareholders</i>		<i>0,00</i>	<i>4.514.916,53</i>

Liabilities	AMOUNTS IN CHF	2007	2006
Due to banks		75.476.830,07	34.550.024,58
Due to customers on savings and deposit accounts		622.415,63	1.066.298,59
Due to customers, other		927.043.408,53	933.949.781,28
Cash bonds		0,00	0,00
Accrued expenses and deferred income		13.259.709,02	10.784.345,88
Other liabilities		20.076.616,34	10.744.358,18
Value adjustments and provisions		36.333.313,18	36.661.556,85
Reserves for general banking risks		70.155.367,67	69.611.796,04
Share capital		16.000.000,00	16.000.000,00
Consolidated reserves		235.583.063,77	231.322.051,77
Group profit		36.284.771,93	29.261.012,00
Total liabilities		1.430.835.496,14	1.373.951.225,17
<i>Total subordinated liabilities</i>		<i>0,00</i>	<i>0,00</i>
<i>Total due to group companies and significant shareholders</i>		<i>4.524.983,30</i>	<i>12.139.477,68</i>

CONSOLIDATED OFF-BALANCE SHEET OPERATIONS

	AMOUNTS IN CHF	2007	2006
Contingent liabilities		119.412.787,74	70.380.660,71
Irrevocable commitments		1.660.321,00	5.837.716,00
Uncalled liabilities to pay in capital or additional capital on shares		8.559.411,94	7.917.688,12
Derivative instruments:			
Positive replacement value		15.032.482,04	10.023.183,31
Negative replacement value		13.685.959,57	7.731.176,86
Contract volume		899.259.909,74	631.209.144,78
Fiduciary transactions		1.727.531.941,69	1.402.961.503,57

CONSOLIDATED INCOME STATEMENT

	AMOUNTS IN CHF	2007	2006
Results from interest activities			
Interest and discount income		49.577.812,56	38.261.978,41
Interest and dividend income on trading portfolios		14.806,68	52.196,78
Interest and dividend income on financial investments		741.158,93	942.797,87
Interest expense		-25.692.920,67	-19.394.196,39
Subtotal: Net interest income		24.640.857,50	19.862.776,67
Results from commission and service fee activities			
Commission income on lending activities		1.991.986,60	1.634.082,57
Commission income from securities and investment business		47.411.991,22	49.243.415,37
Other commission income		14.810.448,84	11.886.083,42
Commission expenses		-10.137.163,56	-10.455.426,83
Subtotal: Results from commission and service fee activities		54.077.263,10	52.308.154,53
Results from trading operations		9.513.751,93	8.791.955,64
Other ordinary results			
Income from disposal of financial investments		666.033,28	3.093.460,86
Income from unconsolidated participations		7.788.981,12	3.765.561,59
Real estate income		809.456,60	808.675,00
Other ordinary income		36.129,63	273.715,20
Other ordinary expenses		-35.001,93	-191,24
Subtotal: Other ordinary results		9.265.598,70	7.941.221,41
Operating expenses			
Personnel expenses		-30.999.077,37	-31.103.336,75
General administrative expenses		-10.396.183,50	-9.946.453,82
Subtotal: Operating expenses		-41.395.260,87	-41.049.790,57
Gross profit		56.102.210,36	47.854.317,68
Depreciation and write-offs on fixed assets		-10.467.858,61	-10.286.061,48
Value adjustments, provisions and losses		-318.130,90	-2.250.834,95
Result before extraordinary items and taxes		45.316.220,85	35.317.421,25
Extraordinary income		464.584,39	6.004.696,75
Extraordinary expenses		-569.115,62	-2.427.283,78
Taxes		-8.926.917,69	-9.633.822,22
Group net profit		36.284.771,93	29.261.012,00

CONSOLIDATED CASH FLOW STATEMENT

	AMOUNTS IN CHF/000			
			2007	2006
	Sources of funds	Application of funds	Sources of funds	Application of funds
Cash flow from operating activities (internal sources)				
Net income	36.285		29.261	
Depreciation and write-offs on non-current assets	10.468		10.286	
Value adjustments and provisions	64		2.118	
Accrued income and prepaid expenses		3.461		555
Accrued expenses and deferred income	2.475		2.805	
Other items	345			172
Dividend of preceding year		25.000		20.000
Balance	21.176		23.743	
Cash flow from investing activities				
Unconsolidated participations		10.576		3.001
Real estate		628		716
Other fixed assets		1.933		3.294
Intangible assets				
Balance		13.137		7.011
Cash flow from banking activities				
Medium and long-term transactions (more than 1 year)				
Due to banks				
Due to customers				
Cash bond issues				
Due from banks				
Due from customers		791	34.565	
Financial investments	4.036		1.992	
Short-term transactions				
Due to banks	40.927		4.661	
Due to customers		7.350	42.922	
Due from money market instruments		657	56	
Due from banks		70.334		22.850
Due from customers	32.135			74.296
Securities and precious metals portfolios		2.304		318
Other assets		4.456	9.742	
Other liabilities	9.332			8.793
Other items	745			6.332
Liquidity				
Cash		9.322	1.919	
Balance		8.039		16.732

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

1. Operations and staff

The PKB Group is present in Switzerland in Lugano, Geneva and Zurich, and through its subsidiary PKB Privatbank Limited, in Antigua (W.I.). The principal activities of the Group are private banking and commercial and financial operations. The number of employees at the end of 2007 was 169 (2006: 160).

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

2. Accounting and valuation principles used

<i>Consolidation principles</i>	The accounting principles of the Group comply with the provisions of the Swiss Federal Law on Banks and Savings Banks, and the accounting regulations of the Swiss Federal Banking Commission. The consolidation is prepared using the purchase method.	
<i>Fully-consolidated participations</i>	The consolidated financial statements contain the annual accounts of PKB Privatbank AG, Lugano and PKB Privatbank Ltd, St. John's, Antigua.	
<i>Accounting and valuation principles</i>	The accounts are established by recording operations on the date they are transacted. The accounting principles set out below have been used.	
<i>Foreign funds and currencies</i>	Valuation at year-end rates. Exchange differences have been booked in the income statement under "Results from trading operations". Exchange rates used for the main currencies were as follows: EUR 1,6617 (2006: 1,6025); USD 1,1299 (2005: 1,2150).	
<i>Credits and general liabilities</i>	Valuation at nominal value.	
<i>Securities and precious metals trading portfolios</i>	Valuation at market price.	
<i>Financial investments</i>	Shares: at market value at the end of the financial year, however not exceeding the acquisition price. Fixed-income securities: the difference between the acquisition price and the redemption value is distributed over the number of years between the date of acquisition and the maturity date.	
<i>Non fully-consolidated participations</i>	Participation not exceeding 20%.	Valuation at acquisition price, after deduction of any economically necessary depreciation.
	Participation between 20% and 50%:	Valuation at equity value.
	Irrespective of the percentage of participation, companies which are not material for a proper valuation of the Group's assets or revenues have been valued at acquisition price, less such depreciation as is economically necessary.	
<i>Tangible fixed assets</i>	Stated at acquisition cost after necessary deductions for ordinary depreciation. Depreciation is charged using the straight-line method. The periods and rates used for depreciation are as follows:	
	Buildings	50 years 2,00 %
	Renovation expenses	20 years 5,00 %
	Equipement	10 years 10,00 %
	Furniture	10 years 10,00 %
	Business equipment and vehicles	5 years 20,00 %
	Hardware/Software	3 years 33,33 %
	Intangible assets	5 years 20,00 %
<i>Reserves for general banking risks</i>	Reserves for general banking risks include a taxed sum of CHF 29.745.367,67.	

<i>Intangible assets</i>	Intangible assets shown on the balance sheet refer to the goodwill paid for the purchase of various shareholdings and for the acquisition of Banca Monte Paschi (Suisse) SA. The goodwill paid for Cassa Lombarda SpA is amortized over 10 years.
<i>Credit risks</i>	Where necessary, the bank makes appropriate provisions, which are booked under "Value adjustments and provisions".
<i>Doubtful interest</i>	Interest and commissions overdue by 90 days are not recognized as revenues but are booked under provisions. The concerned loans are considered as non-performing.
<i>Revenues from trading activities</i>	These revenues are recorded in the income statement before deduction of refinancing expenses.
<i>Contingent liabilities, irrevocable commitments payment commitments and guarantee liabilities</i>	These are reported as off-balance sheet items at nominal value. Provisions for known risks are reported under "Value adjustments and provisions".
<i>Derivative financial instruments</i>	Valuation is effected at market prices (marked-to-market). The use of derivative financial instruments for the bank's own account is mainly for hedging purposes and only marginally for trading operations within limits established by internal regulations.
<i>Principles applied in the identification of risk of loss and calculation of value adjustments</i>	Credits are assessed regularly, at least once a year. Where the risk warrants it, the assessment is carried out more frequently and in a timely manner, particularly for non-performing loans. Where a need is identified to raise provisions for the unsecured portion, these are booked immediately.
<i>Collateral assets for loans</i>	The realizable value is calculated on the basis of the market price or sale value, from which the costs of disposal and refinancing are deducted.
<i>Risk management</i>	<p>During the year under review, an internal risk assessment process was launched, involving all areas of the Bank, and a review of corporate risk governance was carried out. The aim of the risk assessment process is to identify all major risks, using the standard risk categories adopted by the banking sector, to define the methods for measuring them and to take action to mitigate them, if necessary, in order to remain within the risk appetite limits set by the Bank's governing bodies.</p> <p>Concerning structure and governance aspects, the main development was the creation by the Board of Directors, in accordance with the Federal Banking Commission's new Circular 06/6, of an Audit Committee comprising three Board members, the role of which includes oversight of the risk management process.</p> <p>At the General Management level, as part of an internal reorganization, the Risk Management and Compliance functions were merged into a single unit, for which a member of the General Management is responsible.</p> <p>A Risk Committee was also established and charged with consolidating risks at the Co-parfin Group level, in accordance with consolidated supervision requirements. The Risk Committee meets at least once a quarter to review the quarterly risk reports, take any measures required and refer any necessary matters to the General Management, Audit Committee and Board of Directors.</p> <p>The Bank has its own risk management regulations which set out its overall approach to risk together with the organization, duties and authorities for all types of risks of significance at the PKB Group level. The regulations describe and set rules for risks of different types, namely credit, market, liquidity, operational and compliance. There are specific rules for the management, control and monitoring of each type of risk. Limits are set by the Board of Directors as a percentage of regulatory capital in order to limit potential losses.</p> <p>The level of coverage by regulatory capital is significantly higher than that stipulated by law.</p>

Credit risk

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

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

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

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

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

Market risk

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

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

Risk consolidation is the responsibility of the Risk Committee.

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

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The Bank has a Legal and Compliance department that covers all aspects of compliance.

Bank policy in the use of derivative financial instruments

Positions taken in derivative instruments are, in general, held on behalf of clients.

For the structural management of the balance sheet, the Bank hedges interest rate risk via the use of Interest Rate Swaps and Forward Rate Agreements.

3. Information on the consolidated balance sheet

Schedule of collateral for loans and off-balance sheet transactions	AMOUNTS IN CHF/000			TOTAL
	Mortgage collateral	Other collateral	Whitout collateral	
Loans				
Due from customers	1.432	339.461	15.383	356.276
Mortgage loans	36.600			36.600
residential	25.763			
commercial	10.073			
industrial	764			
other				
Total loans	38.032	339.461	15.383	392.876
<i>Preceding year</i>	<i>35.929</i>	<i>366.772</i>	<i>21.518</i>	<i>424.219</i>
Off-balance sheet transactions				
Contingent liabilities	600	109.243	9.570	119.413
Irrevocable commitments		8	1.652	1.660
Liabilities for calls on shares and other equities		8.559		8.559
Credit commitments				
Total off-balance sheet transactions	600	117.810	11.222	129.632
<i>Preceding year</i>	<i>600</i>	<i>76.921</i>	<i>6.615</i>	<i>84.136</i>

Doubtful loans	AMOUNTS IN CHF/000			
	Gross amount	Estimated realizable value of collateral	Net amount	Provisions
Current year	10.761	5.627	5.134	5.134
<i>Preceding year</i>	<i>11.733</i>	<i>6.213</i>	<i>5.520</i>	<i>5.541</i>

Securities and precious metals trading portfolios	AMOUNTS IN CHF/000	
	2007	2006
Debt instruments		
Exchange listed	1.943	911
Unlisted		
Shares and similar securities and rights	1.477	202
Precious metals	2	5
Total securities and precious metals trading portfolios	3.422	1.118
<i>of which securities eligible for discount at the Swiss National Bank</i>		

Financial investments	AMOUNTS IN CHF/000		2007	2006	2007	2006
			Book value	Book value	Market value	Market value
Debt instruments						
of which own bonds and medium-term notes						
of which valued according to "accrual method"			22.508	26.300	22.469	26.594
of which valued at lower of cost or market value			22.371	23.554	26.267	24.584
Shares and similar securities and rights						
of which qualified participations						
Precious metals						
Total financial investments			44.879	49.854	48.736	51.178
<i>of which securities eligible for discount at the Swiss National Bank</i>			9.037	13.031		
Financial investments lent out						

Unconsolidated participations	AMOUNTS IN CHF/000		2007	2006
Participations				
With market value				
Without market value			51.475	40.900
Total participations			51.475	40.900

Information on participations					
Main unconsolidated participations	Registered office	Activity	Currency	Share capital amount in/000	Equity interest in %
Agefin SpA	Milano	Finance Company	EUR	35.000	5.66
Cassa Lombarda SpA	Milano	Bank	EUR	9.000	30.00
Anthilia Capital Partners S.p.A.	Milano	Finance Company	EUR	4.000	40.00
EIH Endurance Investments Holding SA	Lugano	Financial Holding Company	CHF	100	25.00
Eurocanica (UK) Limited	Londra	Financial Holding Company	USD	10.000	9.31
Rasini & C. SA	Lugano	Finance Company	CHF	336	30.06
Valuevalor SA	Lugano	Finance Company	CHF	1.000	100.00

Fixed assets and participations	AMOUNTS IN CHF/000			2007					
	Historical cost	Write-offs/ Accumulated depreciation	Book value as at Dec. 31, 2006	Reclassification	Additions	Disposals	Write-offs	Value adjustments for equity method valuation	Book value end of current year
Participations									
valued by "equity" method	17.056	4.186	21.242		7.671			2.488	31.401
Other	21.967	-2.309	19.658		778	362			20.074
Total participations	39.023	1.877	40.900		8.449	362		2.488	51.475
Properties									
Building for bank use, Lugano	44.754	-12.691	32.063		299		1.605		30.757
Building for bank use, Zurich	9.021	-5.399	3.622		71		426		3.267
Building for bank use, Geneva	12.641	-5.383	7.258		258		421		7.095
Other	12.311	-3.393	8.918				99		8.819
Other fixed assets	31.990	-21.054	10.936		1.933		2.094		10.775
Total tangible fixed assets	110.717	-47.920	62.797		2.561		4.645		60.713
Assets under finance leases									
Other									
Intangible assets									
Goodwill	41.609	-22.137	19.472				5.823		13.649
Total intangible assets	41.609	-22.137	19.472				5.823		13.649
Fire insurance value of real estate									53.573
Fire insurance value of other fixed assets									29.073

Assets pledged or assigned to secure own liabilities and assets subject to ownership reservation	AMOUNTS IN CHF/000	
	2007	2006
Securities pledged for Lombard loan SNB (not used)	12.502	11.504
Total	12.502	11.504

Liabilities to own pension plans	AMOUNTS IN CHF/000	
	2007	2006
Total	18.261	24.528

The Bank's employees are affiliated to an autonomous and independent social welfare institution, in accordance with legal requirements governing occupational pension schemes in Switzerland (LPP). The rules of the fund are based on those of a defined contributions scheme. Pension liabilities are calculated each year by an actuary. The bank accounts for its contributions to the employees' occupational pension scheme as expenses for the financial year concerned. To complete the occupational pension arrangements under the terms of federal law, a foundation has been established of a social nature – i.e. corporate, autonomous and independent. This foundation may provide assistance to employees or finance the employer's contributions.

Reserve for employer's contributions	AMOUNTS IN CHF/000			
	Nominal value at Dec. 31, 2007	Usage waived as at Dec. 31, 2007	Other value adjustments as at Dec. 31, 2007	Balance sheet as at Dec. 31, 2007
Corporate pension scheme	1.300	1.300		
Pension scheme in surplus				
Total	1.300	1.300		

Economic benefits/liabilities and costs of pensions	AMOUNTS IN CHF/000				
	Surplus/shortfall as at Dec. 31, 2006	Company's economic benefit/liability as at Dec. 31, 2007	Contributions offset during 2007	Contributions paid during the period and booked as personnel expenses	
				2006	2007
Corporate pension scheme	1.026				
Pension scheme in surplus				2.288	2.653
Total	1.026			2.288	2.653

The foundation, registered under the terms of the law on occupational pension schemes, does not represent any benefit or liability to the Bank and has no impact on either its balance sheet or income statement.

Value adjustments and provisions / Reserves for general banking risks	AMOUNTS IN CHF/000						
	Balance end of preceding year (Dec. 31, 2006)	Specific usage and reversals	Change in definition of purpose (reclassifications)	Recoveries, doubtful interest, currency differences	New creation charged to income statement	Reversal credited to income statement	Balance end of current year (Dec. 31, 2007)
Value adjustments and provisions for default risks (credit and country risks)	6.174	-438		33	64	-108	5.725
Value adjustments and provisions for other business risks	11.920						11.920
Provisions for deferred taxes	14.146	-939					13.207
Restructuring provisions	53	-13	-3			-37	0
Other provisions	4.889		3	-8	1.117		6.001
Total value adjustments and provisions	37.182	-1.390	0	25	1.181	-145	36.853
Less: Value adjustments directly netted with assets	520						520
Total value adjustments and provisions as per balance sheet	36.662						36.333
Reserves for general banking risks	69.612				543		70.155

Breakdown of other assets and other liabilities	AMOUNTS IN CHF/000		2007		2006	
	Other assets	Other liabilities	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values	12.003	10.656	7.446	5.154		
Indirect taxes	165	5.675	193	5.546		
Other	619	3.746	691	44		
Total	12.787	20.077	8.330	10.744		

Statement of changes in shareholder's equity		AMOUNTS IN CHF/000	
Shareholders' equity at January 1, 2007			
<i>Share capital</i>			16.000
<i>less share capital not paid-in</i>			
Share capital paid-in			16.000
Consolidated reserves			231.322
Reserves for general banking risks			69.612
Group profit			29.261
Total shareholders' equity as at January 1, 2007 (before distribution of profit)			346.195
+ Capital increase			
+ Premium over par value			
- Dividends and other distributions of retained earnings brought forward			
+ Other allocations			543
- Dividends and other distributions of retained earnings brought forward			-25.000
+ Net profit for the year			36.285
Total shareholders' equity as at December 31, 2007 (before distribution of profit)			358.023
thereof:			
<i>Share capital</i>			16.000
<i>Less share capital not paid-in</i>			
Share capital paid-in			16.000
Consolidated reserves			235.583
Reserves for general banking risks			70.155
Group profit			36.285

Maturity structure of current assets and borrowed funds								AMOUNTS IN CHF/000
	At sight	Redeemable by notice	Maturities within 3 months	within 3 to 12 months	within 1 to 5 years	over 5 years	Fixed	Total
Current assets								
Cash	25.682							25.682
Money market instruments	58		677					735
Due from banks	138.068	4.093	667.502	5.761				815.424
Due from customers	456	202.104	108.819	28.263	16.634			356.276
Mortgage loans				32.101	4.499			36.600
Securities and precious metals trading portfolios	2		1.477	1.633	310			3.422
Financial investments			25.870	1.755	14.257	2.997		44.879
Total current assets	164.266	206.197	804.345	69.513	35.700	2.997		1.283.018
<i>Preceding year</i>	<i>111.831</i>	<i>243.279</i>	<i>694.560</i>	<i>144.503</i>	<i>35.105</i>	<i>7.442</i>		<i>1.236.720</i>
Borrowed funds								
Money market instruments								
Due to banks	17.895		43.273	14.309				75.477
Due to customers in savings and investment accounts		622						622
Due to customers, other	330.479	445.668	144.116	6.780				927.043
Cash bonds								
Total borrowed funds	348.374	446.290	187.389	21.089				1.003.142
<i>Preceding year</i>	<i>399.775</i>	<i>430.946</i>	<i>129.827</i>	<i>9.018</i>				<i>969.566</i>

Amount due from and due to group companies as well as loans And exposure to members of the bank's governing bodies	AMOUNTS IN CHF/000		2007	2006
Due from group companies			35.898	17.359
Due to group companies			5.710	8.694
Due from bank's governing bodies			3.207	4.204

Analysis of assets and liabilities by Swiss and foreign origin	AMOUNTS IN CHF/000		2007		2006	
	Swiss	Foreign	Swiss	Foreign	Swiss	Foreign
Assets						
Cash	25.681	1	16.359	1		
Money market instruments		735	70	8		
Due from banks	174.615	640.809	171.271	573.820		
Due from customers	67.221	289.055	68.606	320.767		
Mortgage loans	36.600		34.846			
Securities and precious metals trading portfolios	853	2.569	112	1.006		
Financial investments	12.500	32.379	12.498	37.356		
Unconsolidated participations	2.598	48.877	2.185	38.715		
Fixed assets	60.573	140	62.632	165		
Intangible assets	2.577	11.072	3.554	15.918		
Accrued income and prepaid expenses		9.193	21	5.711		
Other assets	193	12.594	247	8.083		
Total assets	383.411	1.047.424	372.401	1.001.550		
Liabilities and shareholders' equity						
Due to banks	36.504	38.973	24.120	10.430		
Due to customers in savings and deposit accounts	509	113	893	173		
Due to customers, other	210.476	716.567	194.461	739.489		
Cash bonds						
Accrued expenses and deferred income	6.189	7.071	6.891	3.893		
Other liabilities	8.946	11.131	5.132	5.612		
Value adjustments and provisions	36.333		36.662			
Reserves for general banking risks	70.155		69.612			
Share capital	16.000		16.000			
Consolidated reserves	235.583		231.322			
Group profit	36.285		29.261			
Total liabilities and shareholders' equity	656.980	773.855	614.354	759.597		

Geographical analysis of assets	AMOUNTS IN CHF/000		2007		2006	
Assets		%				%
Italy	186.012	13,00	175.218		12,75	
Other OECD countries	653.504	45,67	627.502		45,67	
Other countries in America (non-members of OECD)	110.768	7,74	95.574		6,96	
Other countries	97.140	6,79	103.256		7,52	
Total foreign assets	1.047.424	73,20	1.001.550		72,90	
Switzerland	383.411	26,80	372.401		27,10	
Total assets	1.430.835	100,00	1.373.951		100,00	

Breakdown of assets and liabilities by currencies	CURRENCIES (equivalent in CHF/000)				
	CHF	USD	EUR	Other	Total
Assets					
Liquid assets	24.562	64	965	91	25.682
Money market instruments		677	5	53	735
Due from banks	236.411	259.605	273.384	46.024	815.424
Due from customers	66.723	39.322	240.663	9.568	356.276
Mortgage loans	36.600				36.600
Securities and precious metals trading portfolios	851	164	2.270	137	3.422
Financial investments	22.459		22.420		44.879
Unconsolidated participations	2.597	14.685	34.070	123	51.475
Tangible fixed assets	60.713				60.713
Intangible assets	2.577		11.072		13.649
Accrued income and prepaid expenses	9.193				9.193
Other assets	12.128	629	4	26	12.787
Total assets	474.814	315.146	584.853	56.022	1.430.835
Forward contracts	95.621	257.082	233.011	218.012	803.726
Long position	570.435	572.228	817.864	274.034	2.234.561
<i>Long position preceding year</i>	<i>490.198</i>	<i>532.983</i>	<i>726.559</i>	<i>146.590</i>	<i>1.896.330</i>
Liabilities and shareholders' equity					
Due to banks	32.003	7.297	34.061	2.116	75.477
Due to customers in savings and deposit accounts	622				622
Due to customers, other	102.861	293.474	477.535	53.173	927.043
Cash bonds					
Accrued expenses and deferred incomes	13.260				13.260
Other liabilities	19.493	92	492		20.077
Value adjustments and provisions	34.928	1.405			36.333
Reserves for general banking risks	70.155				70.155
Share capital	16.000				16.000
Consolidated reserves	235.583				235.583
Group profit	36.285				36.285
Total liabilities	561.190	302.268	512.088	55.289	1.430.835
Forward contracts	95.746	255.084	233.417	218.200	802.447
Short position	656.936	557.352	745.505	273.489	2.233.282
<i>Short position preceding year</i>	<i>574.387</i>	<i>516.315</i>	<i>657.652</i>	<i>145.772</i>	<i>1.894.126</i>
Net long (short) position	-86.501	14.876	72.359	545	1.279
<i>Net long (short) position preceding year</i>	<i>-84.189</i>	<i>16.668</i>	<i>68.907</i>	<i>818</i>	<i>2.204</i>

4. Information on consolidated off-balance sheet transactions

Analysis of contingent liabilities	AMOUNTS IN CHF/000	2007	2006	CHANGE
Payment guarantees and similar instruments		96.496	54.866	+41.630
Performance guarantees and similar instruments			130	-130
Irrevocable commitments under documentary credits		22.917	15.385	+7.532
Other contingent liabilities				
Total		119.413	70.381	+49.032

Derivative instruments	AMOUNTS IN CHF/000	Trading instruments			Hedging instruments		
		Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate derivatives							
Forward contracts FRAs and IRS					147	52	51.035
Futures					63	91	6.490
Foreign exchange derivatives							
Forward contracts		11.704	10.425	803.726			
Options (OTC)							
Precious Metals							
Options (OTC)		12	12	1.025			
Equity/Index derivatives							
Options (OTC)		3.106	3.106	36.984			
Other							
Options (OTC)							
Total		14.822	13.543	841.735	210	143	57.525
<i>Preceding year</i>		<i>10.023</i>	<i>7.703</i>	<i>627.064</i>	<i>0</i>	<i>28</i>	<i>4.145</i>
Total after impact of netting contracts:		Positive replacement value (cumulative)			Negative replacement value (cumulative)		
Current year		15.032			13.686		
<i>Preceding year</i>		<i>10.023</i>			<i>7.731</i>		

Analysis of fiduciary transactions	AMOUNTS IN CHF/000	2007	2006	CHANGE
Deposits with third-party banks		1.679.057	1.350.042	+329.015
Deposits with banks of the group and associated banks				
Loans and other financial transactions		48.475	52.920	-4.445
Total		1.727.532	1.402.962	+324.570

Clients' assets	AMOUNTS IN CHF/000	2007	2006	CHANGE
Held in investments funds managed by the bank		484.776	564.348	-79.572
Under investment mandate		1.132.652	1.018.903	113.749
Other		5.963.556	5.861.428	102.128
Total clients' assets (including double-counted assets)		7.580.984	7.444.679	136.305
of which double-counted		382.244	456.614	-74.370
Net deposits (withdrawals)		-180.253	228.140	-408.393

Assets held purely for custody purposes are not included in this table. These are understood to be assets in respect of which the bank only provides a custody and encashment service, without providing any additional services.

The net contributions/withdrawals are calculated on the basis of actual movements of customer funds and/or securities in and/or out of the accounts. Variations due to market prices (securities and currencies), interest and dividends, are not considered to be contributions or withdrawals.

5. Information on the consolidated income statement

Analysis of results from trading operations	AMOUNTS IN CHF/000	2007	2006	CHANGE
Foreign exchange and bank notes		7.278	7.110	+168
Precious metals		3	13	-10
Securities		2.235	2.539	-304
Other		-2	-870	+868
Total trading operations		9.514	8.792	+722

Analysis of personnel expenses	AMOUNTS IN CHF/000	2007	2006	CHANGE
Salaries		24.771	25.450	-679
Social security contributions		4.756	4.456	+300
Other personnel expenses		1.472	1.197	+275
Total personnel expenses		30.999	31.103	-104

Analysis of other operating expenses	AMOUNTS IN CHF/000	2007	2006	CHANGE
Occupancy expenses		1.411	1.511	-100
Maintenance costs of computers, telecommunications, machines, furniture, vehicles, other facilities and equipment		1.385	1.789	-404
Other office expenses		7.600	6.647	+953
Total operating expenses		10.396	9.947	+449

Operating profit by location	AMOUNTS IN CHF/000		2007		2006	
	Swiss	Foreign	Swiss	Foreign	Swiss	Foreign
Net interest income	22.182	2.459	17.937	1.926		
Net fee and commission income	52.597	1.480	50.983	1.325		
Net income from trading operations	9.121	393	8.496	296		
Other income from ordinary activities	4.185	5.080	5.657	2.284		
Operating income	88.085	9.412	83.073	5.831		
Personnel expenses	-30.362	-637	-30.497	-606		
General administrative expenses	-9.954	-442	-9.527	-420		
Operating expenses	-40.316	-1.079	-40.024	-1.026		
Operating profit	47.769	8.333	43.049	4.805		

REPORT OF THE GROUP AUDITORS

To the General Meeting
of PKB Privatbank AG, Lugano

As group auditors, we have audited the consolidated financial statements (balance sheet, cash flow statement, income statement and notes: pages 30-49) of the PKB Group for the year ended December 31, 2007.

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

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

In our opinion, the consolidated financial statements comply with Swiss law and the consolidation and valuation principles as set out in the notes.

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

Lugano, March 14th, 2008
Ernst & Young SA

Mario Mosca
Swiss Certified Accountant
(In charge of the audit)

Enza Luongo
Swiss Certified Accountant

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