



Falcon Private Bank
Annual Report 2012

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FOREWORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

With after-tax profits of 52.1 million Swiss francs, Falcon Private Bank can look back on a strong and successful year 2012. It was an eventful year, marked by an extremely dynamic economic and regulatory environment and by the increasing consolidation of the international wealth management and banking sectors.

In 2012, the development of the global economy was defined primarily by the enduring crisis of confidence surrounding sovereign debt and the stability of the financial system. Economic policy decisions and measures in major industrial countries were able to only partially restore confidence in future growth. The ongoing instability of the eurozone posed the largest threat to the world economy, resulting in market uncertainty, a decline in economic activity and deepening of recessionary trends.

Despite subdued global economic growth, the Swiss stock market finished 2012 with a gain of 18%. Record-high liquidity and growing confidence in the continued existence of the euro in the second half of the year as well as a strong real economy were responsible for this increase. In general, 2012 proved to be a good year for bonds and equities as double-digit returns were achieved across the board with only few exceptions. Especially the bond and equity markets in second-tier emerging markets such as the Philippines, Mexico and various Southeast Asian markets experienced exceptional growth, and grew 40–70% compared with the 2007 investment year. Nevertheless, confidence in continued growth for the 2013 investment year remains fragile, global investor behavior remains cautious and the level of liquidity is still high.

In order to participate in the changing global asset accumulation and distribution, Falcon Private Bank has not only considerably strengthened its focused strategy as a distinctive financial institution for “Fine Swiss Private Banking” but also significantly increased its presence and the services it offers in emerging markets. For example, in October 2012 our Bank announced the acquisition of Clariden Leu (Europe) Ltd. The independent finance company based in London specializes in wealth management in emerging markets and expands our services in the core markets of Switzerland, the Middle East, Asia and Northern and Eastern Europe. The advisory license issued to our subsidiary Falcon Private Financial Advisory LLC,

Abu Dhabi, on July 24, 2012, complements our existing commercial license and represents a significant step in the strengthening of our activities in the growth markets of the Middle East.

Thanks to its personalized offering of boutique global wealth management and investment services tailored to the individual and local needs of private clients in emerging markets, Falcon Private Bank reported net new money inflows of 1.1 billion Swiss francs in Global Private Banking by the end of 2012. This resulted in an encouraging increase in global assets under management from 11.3 billion Swiss francs at the end of 2011 to 12.1 billion Swiss francs at the end of 2012.

To ensure that we continue to meet the growing needs of global clients with respect to service quality and efficiently administer our clients' assets under management, Falcon Private Bank has replaced its core banking system with a new, more efficient and flexible banking platform. This platform was successfully put into service on January 1, 2013.

In addition to our local presence and the attractive services we offer, brand recognition and the positive image of Falcon Private Bank in the market play a significant role in the acquisition of new clients in our growth markets. The recognition of Falcon Private Bank as an efficient and dynamic private bank with an international presence has been decisively strengthened in recent years by our sponsorship of the Formula One team “Scuderia Toro Rosso”. For this reason, in May 2012 our Bank renewed its contract with the team, which is part of Red Bull family of drivers – not least due to the excellent platform this sponsorship provides us with in terms of client loyalty and support.

As part of the ongoing consolidation and structural realignment of the Falcon Private Bank Group, the liquidation proceedings for Falcon Ltd., Dubendorf, Switzerland – formerly Falcon Fund Management (Switzerland) Ltd. – were concluded on December 5, 2012. Falcon Europe AG, Vienna, was liquidated on November 20, 2012. Furthermore, the acquisition of Clariden Leu (Europe) Ltd., London, is expected to be completed – subject to regulatory approval – in the second quarter of 2013. The only personnel change on the

Board of Directors or the Executive Board in 2012 was the appointment of David Pinkerton, Chief Investment Officer and Head of Investment Solutions, to the Executive Committee as of January 1, 2012.

Finally, we would like to thank our valued clients and committed employees and shareholders, whose confidence, loyalty and support have allowed us to achieve a strong performance in a dynamic environment. We will continue to make every effort to demonstrate our strength as a globally oriented private bank with our compelling “Fine Swiss Private Banking” services.

Mohamed Badawy Al-Husseiny

Chairman of the Board of Directors

Eduardo Leemann

Chief Executive Officer

BOARD OF DIRECTORS

As of December 31, 2012

MOHAMED BADAWY AL-HUSSEINY

Chairman of the Board of Directors
Abu Dhabi, U.A.E.
aabar Investments PJS

LENNART BLECHER ¹⁾

Vice-Chairman of the Board of Directors
Baech, Switzerland
EQT AG

MURTADHA AL HASHMI

Member of the Board of Directors
Abu Dhabi, U.A.E.
International Petroleum Investment Company (IPIC)

DR. H.C. GEORG F. THOMA

Member of the Board of Directors
Neuss, Germany
Shearman & Sterling LLP

MICHAEL BAER ¹⁾

Member of the Board of Directors
Zurich, Switzerland/Dubai, U.A.E.
baerpro AG/Baer Capital Partners International Ltd.

DR. CHRISTIAN WENGER ¹⁾

Member of the Board of Directors
Zumikon, Switzerland
Wenger & Vieli AG

¹⁾ Members of the Board of Directors meet the independence criteria set out in FINMA Circular 08/24 Margin Notes 20–24.

EXECUTIVE COMMITTEE

As of December 31, 2012

EDUARDO LEEMANN

Chief Executive Officer

TOBIAS UNGER

Deputy Chief Executive Officer
and Chief Operating Officer

MARY ANTENEN

Head Finance
and Chief Financial Officer

ZAFAR KHAN

Chief Executive MENA Region

DAVID PINKERTON

Head of Investment Solutions
and Chief Investment Officer

CONSOLIDATED
FINANCIAL STATEMENTS
FALCON PRIVATE BANK GROUP

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31

in 1000 CHF

	Notes	2012	2011
Assets			
Cash		55 035	175 383
Money market papers		31 536	34 289
Due from banks		181 595	143 007
Due from customers	2	1 266 616	1 250 891
Mortgage loans	2	1 819	12 842
Securities and precious metals held for trading purposes	3a	344 743	322 083
Financial investments	3b	11 687	12 999
Participations	1, 3c	20 188	20 212
Tangible fixed assets	4	4 570	5 244
Intangible assets	4	6 401	0
Accrued income and prepaid expenses		16 632	18 307
Other assets	10	27 740	40 770
Total assets		1 968 562	2 036 027
Total subordinated assets		23 016	0
Total due from non-consolidated Group companies and significant shareholders		0	0
Liabilities			
Money market papers		357	39
Due to banks		115 273	282 919
Due to customers with savings and deposit accounts		0	0
Other amounts due to customers		1 545 596	1 481 662
Accrued expenses and deferred income		26 728	23 965
Other liabilities	10	21 479	34 499
Valuation adjustments and provisions	7	19 978	25 321
Reserves for general banking risks	8	3 000	3 000
Share capital	8	120 000	120 000
Profit reserve	8	63 607	53 644
Minority interest in shareholders' equity	8	422	419
Consolidated net profit	8	52 122	10 559
Of which minority interest		821	623
Total liabilities and shareholders' equity		1 968 562	2 036 027
Total subordinated liabilities		28 150	28 150
Total due to non-consolidated Group companies and significant shareholders		120 492	122 296

Consolidated Off-Balance Sheet Items as of December 31

	Notes	2012	2011
Contingent liabilities	2, 11a	8 406	7 260
Irrevocable commitments		24 933	25 449
Derivative instruments			
– positive replacement values	11b, 11c	19 266	31 136
– negative replacement values	11b, 11c	19 165	31 633
– contract volume	11b, 11c	1 283 916	2 273 236
Fiduciary items	11d	875 856	651 844

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in 1000 CHF

Income and Expenses from Ordinary Banking Activities

	Notes	2012	2011
Results from interest activities			
Interest and discount income		41 259	33 712
Interest and dividend income on securities held for trading		8 686	9 504
Interest and dividend income on financial investments		1 327	4 150
Interest expenses		-13 714	-12 844
Net result from interest activities		37 558	34 522
Results from commission and fee activities			
Commission and fee income from lending activities		3 548	4 683
Commission and fee income from securities and investment activities		50 449	43 646
Commission and fee income from other services rendered		1 675	731
Commission expenses		-6 099	-6 770
Net result from commission and fee activities		49 573	42 290
Results from trading operations	13a	21 661	1 332
Other ordinary income and expenses			
Profit on sales of financial investments		35	-563
Income from equity participations according to the equity method		0	4 535
Income from other participations		42	132
Rental income		85	62
Other ordinary income		453	738
Other ordinary expenses		-523	-1 458
Other ordinary income and expenses		92	3 446
Operating expenses			
Personnel expenses	13b	-60 198	-56 665
Other operating expenses	13c	-48 083	-47 945
Operating expenses		-108 281	-104 610
Gross result		603	-23 020

Consolidated Net Profit

	Notes	2012	2011
Gross result		603	-23 020
Depreciation of fixed assets and intangible assets	4	-2 834	-12 786
Valuation adjustments, provisions and losses		-3 626	-11 868
Consolidated result before extraordinary items and taxes		-5 857	-47 674
Extraordinary income	13d	59 092	59 050
Extraordinary expenses		-17	-14
Taxes	13f	-1 096	-803
Consolidated net profit		52 122	10 559
Of which minority interest		821	623

DESCRIPTION OF BUSINESS ACTIVITIES

General information

Falcon Private Bank Ltd. (“the Bank”) and its subsidiaries (“the Group”) primarily provide investment advisory and asset management services. The head office of both the Bank and the Group is in Zurich. In addition, the Bank has branches in Geneva, Hong Kong and Singapore, and representative offices in Dubai and Abu Dhabi, as well as various subsidiaries both in Switzerland and abroad. As of the end of 2012 the Group employed 302 people (2011: 296) expressed in terms of full-time equivalents.

The information below relates to the 2012 financial year.

Principal activities

The Group's main activities comprise the provision of investment advisory services and asset management for private clients, as well as the trading and lending activities associated with these activities. The subsidiary IFS Independent Financial Services Ltd., Lucerne, also operates in this business segment.

In addition, the Group is active in wealth management for institutional clients, namely through Falcon Fund Management based in Luxembourg (fund management).

In line with the Group's business activities, the major portion of its income is derived from commissions and service fees. Commissions and fees originate primarily from asset management, the Bank's brokerage activities and the administration of custody accounts. Additional commissions are earned from fiduciary transactions and other banking operations (loans, guarantees, money transfers, account keeping, etc.).

Lending operations are conducted primarily on a collateral basis (lombard loans), with unsecured loans as an exception. Mortgages are only granted in exceptional cases.

Interbank business is generally restricted to the short term.

The Group conducts proprietary trading activities, mainly in foreign exchange. Derivative financial instruments are used primarily on behalf of clients.

All other business segments are of minor importance and do not significantly impact the Group's consolidated balance sheet or profit and loss account.

Risk assessment

The Board of Directors discusses on a regular basis the critical risks to which the Group is exposed. These include market and credit risk, as well as operational risk. For credit risk, the assessment is based on risk rating categories and underlying collateral, as well as on external ratings. Market risk derived from the positions held in the trading and banking book is part of the asset and liability management. For operational risk the assessment is based on the bank's internal risk inventory of the key processes, with information concerning the likelihood that risk events will occur and the estimated impacts. Risk-reducing measures and internal controls are taken into account in the assessment. The Board of Directors adapted the risk policy in line with the risk assessment and set the overall risk limit based on the Risk Weighted Assets (RWA).

Risk Management

The risk policy approved by the Board of Directors along with the existing policies that govern the handling, recording and assessing of latent risks form the basis of risk management. Monitoring, identifying, measuring and controlling risk is an important function for the Group. In order to fulfill its responsibilities and carry out its monitoring function, the Board of Directors regularly receives relevant risk reports. The internal reports provide appropriate information on all key risk areas. Maintaining a positive reputation and strong credit rating form part of the Group's key goals. The Group ensures its regulatory capital requirements are met at all times and has defined its capacity and willingness to accept risk in such a way that even if a range of negative events were to occur the required capital adequacy levels would be maintained.

Credit risks

Credit exposure to clients, banks and brokers arising from on- and off-balance sheet transactions exists within the normal course and scope of business. Credit exposure to clients is strictly limited by means of appropriate collateral requirements and by market-oriented monitoring and controls. The credit approval process is clearly organized and structured on a hierarchical basis.

As a matter of principle, the Group works together only with first-class counterparties. In order to manage counterparty

risk in interbank and trading activities the Group applies a system of limits that is largely based on the counterparty rating. The assessment also takes into consideration current market estimations (e.g. CDS premiums) and the Group's capital base.

Market risks

Market risks from trading are monitored by the Risk Control department on a daily basis by using delta limits. Financial investment-related market risks as well as interest and foreign exchange risks related to the balance sheet are monitored on a monthly basis by making comparisons with the overall RWA limit. A profit and loss statement is produced daily to monitor the liquid financial assets of the trading and banking book. The identified risks and financial results are communicated to the Asset and Liability Committee and Executive Board on a monthly basis and the Risk Committee of the Board of Directors on a quarterly basis.

Liquidity risks

The Treasury function monitors liquidity risks in line with the regulatory framework and ensures that the Group is able to fulfill all of its liquidity requirements. This is done through diversified refinancing and in matching currencies and maturities. Liquidity management is in the responsibility of the Asset and Liability Committee.

Operational risks

Day-to-day business is regulated by internal policies. The Reconciliations and Investigations department monitors the open positions in cash, securities and derivative financial instruments. Internal and sub-ledger accounts are monitored regularly. All identified losses are documented and analyzed. Moreover, in order to record, monitor and control operational risk, the Bank has set up a committee to identify and analyze the Bank's core processes and ensure that these are described and controlled via the department heads. The risk inventory of the key processes is reviewed periodically and contains information about how likely it is that these events will occur and their estimated impact. The Internal Audit department regularly reviews the effectiveness of the internal controls as part of its normal auditing activities and reports directly to the Board of Directors.

Compliance and legal risks

The internal Legal & Compliance unit, under the leadership of the General Counsel, incorporates Legal Services and the Compliance function. In accordance with FINMA Circular 08/24 the Group maintains a Compliance function that in the year under review has an established inventory of the compliance risks and a risk-oriented action plan. The unit is independent of income-oriented business activities and has an unlimited right to information, access and scrutiny. It reports directly to the Chief Operating Officer. The compliance-related activities comprise in particular the provision of support and advice to the Group in order to ensure that its business activities are in accordance with regulatory provisions and the due diligence obligations of a financial intermediary. This unit is also responsible for monitoring the requirements and developments coming from the regulatory authority, the legislature or other organizations. An IT application that identifies unusual transactions is used to ensure compliance with money laundering regulations. The responsibilities and measures relating to compliance with money laundering regulations are clearly defined and are monitored by the Legal & Compliance department. Other key responsibilities include the provision of relevant training and information to members of staff at all levels. Legal & Compliance is also responsible for recording, processing and monitoring pending legal proceedings.

Outsourcing

Falcon Private Bank Ltd. has outsourced the printing, packaging and mailing of various client documents (e.g. account statements, tax statements) to external service providers within Switzerland. As of January 2013 the operation, maintenance and support relating to the core bank application as well as various other peripheral systems is assured by a specialized service provider in Switzerland. The abovementioned outsourcing is based on contractual arrangements that comply with the requirements set out in the FINMA Circular as well as the requirements of local regulators for the respective locations. No other essential business sectors or business activities are outsourced.

Disclosure in accordance with capital adequacy regulations

Eligible and required capital of the Group

	31.12.2012 CHF million	31.12.2011 CHF million
Gross core capital	239.1	187.6
Components to be deducted from core capital	-6.4	0
Eligible core capital	232.7	187.6
Supplementary capital and additional capital	28.2	28.2
Other deductions from total capital	-20.2	-20.2
Eligible capital	240.7	195.6
Credit risk (Swiss comprehensive approach)	43.3	35.7
Of which price risk relating to equity-type securities in the banking book	3.6	2.6
Non-counterparty-related risks (Swiss standardized approach)	2.3	2.6
Market risk (Swiss standardized approach)	10.6	10.8
Operational risk (basic indicator approach)	13.4	12.0
Deductions from required equity capital	-1.0	-1.3
Required capital	68.6	59.8
Capital surplus	172.1	135.8
Capital adequacy ratio (CAR)*	28.07 %	25.6 %

Events after the balance sheet date

No events that would adversely affect the financial statements included in this report occurred after the balance sheet date.

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

Basis

The consolidated financial statements of Falcon Private Bank Group have been prepared in accordance with the provisions of the Swiss Federal Code of Obligations, the Federal Law on Banks and Savings Banks, the Federal Stock Exchange Act and the related Implementing Ordinances and accounting rules as defined by the Swiss Financial Market Supervisory Authority (FINMA). These consolidated financial statements, which are based on the accounting policies outlined below, give a true and fair view of the financial position of the Group and the results of its operations. A statement of cash flow is not required as the Bank does not actively engage in significant balance sheet activities.

Scope of consolidation

The consolidated financial statements comprise the financial statements of the Bank and the subsidiaries that are controlled by the Bank, either directly or indirectly, through the ownership of more than 50 % of the voting rights or through other means. The subsidiaries Falcon Europe AG, Vienna, and Falcon AG, Dubendorf, were liquidated in the reporting year and are thus no longer within the scope of consolidation.

Method of consolidation

Subsidiaries, which the Group controls either directly or indirectly, are included in the Group accounts according to the principle of full consolidation. The consolidation of capital is based on the purchase method. Participations, where minority interests exist, are also fully consolidated. The respective minority interest in the equity and net profit are disclosed separately. Newly acquired subsidiaries are consolidated as from the time when control over them passes to the Group. Subsidiaries that are sold are consolidated until the sales transaction is finalized, if the revenues and expenses of these subsidiaries have a significant impact on the Group.

Interim profits and the effects of intra-Group transactions are eliminated when the Group accounts are being prepared.

Recording of business transactions

All transactions are recorded in the Group's balance sheet on a trade date basis, except for forward transactions, which are reported from the trade date as off-balance sheet items and

from the settlement date in the balance sheet. All transactions are valued from the trade date onward.

Translation of foreign currencies

Transactions in foreign currencies are translated into Swiss Francs at daily exchange rates. Foreign currency positions, with the exception of participations, are converted into Swiss Francs at the average exchange rates prevailing at the year-end closing date. Resulting conversion profits and losses are included in the "net result from trading operations". Participations in foreign currencies are valued at the exchange rates prevailing at the time of acquisition or creation. In the event of a decline in the value of such an investment, giving due account also to the fluctuation of exchange rates, a valuation adjustment is made. Assets, liabilities, costs and revenues of Group companies maintaining their books in a foreign currency, are translated into Swiss Francs at the average exchange rate prevailing at the year-end closing date. Exchange differences resulting from this translation are either debited or credited to profit reserves. Exchange differences of CHF 37 000 were credited to profit reserves in 2012.

For the foreign exchange conversions, the following rates were applied (major foreign currencies only):

	2012	2011
USD	0.915	0.935
EUR	1.2075	1.2125
HKD	0.1181	0.1204
SGD	0.75	0.72

General valuation principle

Each item stated in the balance sheet is valued individually.

Cash, money market papers, amounts due from and due to banks, amounts due to customers

Cash and amounts due from and due to banks, as well as amounts due to customers, are stated at their nominal value less individual valuation adjustments for doubtful receivables. Money market papers are valued at amortized costs.

Loans (amounts due from clients and mortgage loans)

Overdue receivables and receivables at risk, including off-balance sheet transactions, are valued on an individual basis

and potential reductions in value are covered by corresponding provisions. Loans are considered overdue when the contractually agreed repayment of capital and/or payment of interest is outstanding for more than 90 days. Overdue interest and interest at risk are not considered in the income statement. Interest is no longer calculated if the recovery of the interest is doubtful.

The reduction in value is established as the difference between the book value of the receivable and the expected recoverable amount, taking into account counterparty risk and the possible net proceeds from the liquidation of pledged assets. If it is likely that the process of liquidation of pledged assets will take more than one year, the estimated net proceeds are discounted to the balance sheet date.

Valuation adjustments are reported as liabilities in the balance sheet position "valuation adjustments and provisions".

When a loan is considered partly or entirely irrecoverable or when a waiver of debt repayment has been granted, the debt is written off against the corresponding provision. Recoveries on loans previously written off are directly credited to the account "provisions for credit risk".

Securities and precious metals held for trading purposes

Securities and precious metals held for trading purposes are, in principle, stated at their fair values. Usually, fair values equal the market prices at which the securities or precious metals are traded or offered on a recognized stock exchange or a representative financial market at the balance sheet closing date. Exceptionally, if no fair value is available, the security or precious metal is stated at the lower of cost or market value.

Valuation differences between the balance sheet date and the transaction date are credited or debited to "net result from trading operations". Interest and dividend income from trading positions are shown as part of "interest and dividend income" (see Changes in accounting and valuation principles).

Financial investments

Shares, investment fund units and other equity-related papers, as well as convertible bonds, and warrant-linked bonds outside the trading portfolio are stated at the lower of cost

or market value. Valuation adjustments are booked on a net basis to "other ordinary expenses" or "other ordinary income". Valuation increases up to the purchase price are recognized, if the market price was lower than the purchase price and subsequently recovers. If there is no liquid market for a particular security, the fair value is determined by using a prudent approach.

Fixed-income instruments intended to be held until maturity are valued according to the accrual method. Premiums and discounts on these securities are added to the nominal value and are amortized over the remaining life of the investment. Realized gains or losses from an early sale or redemption of such investments are amortized over their remaining life, i.e. until the original maturity.

Specific provisions are made in the case of identifiable credit risks and are reflected in the position "valuation adjustments and provisions".

Non-consolidated participations

Where the Group controls between 20–50 % of the voting shares of a company and the participation has a significant impact on the Group's accounts, it is included in the consolidated financial statements according to the equity method. Under the equity method, the Group's share in the equity of the acquired company is shown under "participations" and the share in the net profit as "income from participations".

Where the Group controls less than 20 % of the voting shares of a company or if the company does not have a significant impact on the Group's accounts, the participation is stated in accordance with the lower of cost or market principle.

Securities lending and borrowing

Borrowed securities or securities that have been received as collateral are recorded in the balance sheet only if the Group obtains the economic power over the rights attached to the securities. Lent securities or securities given as collateral are only removed from the balance sheet only if the Group gives up the economic power over the rights attached to the securities.

Collateral given for borrowed securities or received for lent securities is stated in the balance sheet at book value.

Received or paid charges from securities lending and borrowing and repurchase transactions are recorded as “interest income” or “interest expense” in accordance with the accrual/deferral method.

Tangible fixed assets

Tangible fixed assets are initially reported at cost and depreciated using the straight-line method over their estimated useful lives. Minor acquisitions that do not constitute added value for the Group are charged directly to operating expenses. An annual evaluation for signs of impairment is carried out. In the event that this evaluation results in a reduction of the estimated useful life of the asset or a decline in value, the residual book value is depreciated over the reduced estimated useful life or an extraordinary amortization for impairment is booked. All depreciation is booked through the income statement. Should the asset subsequently recover its value, a corresponding appreciation is booked.

The estimated useful life for the following categories of tangible fixed assets is:

Improvements to rented buildings	Duration of rental contract
Software	4 years
Other fixed assets:	
Furniture, cars	4 years
Hardware and communication devices	4 years

Realized profits or losses on the sale of fixed assets are booked as extraordinary profits or losses.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of the acquired net assets of a company or part of a company over their value at the date of purchase, according to the Group’s valuation principles. The purchase of client assets from an institution also falls under this definition. Goodwill is recognized as an asset and is amortized through the income statement over its estimated useful life. If the useful life cannot be clearly determined, the amortization is usually carried out over a period of five years. An annual evaluation for signs of impairment is carried out. In the event that this evaluation results in a reduction of the estimated useful life or a decline in value, the residual book value is depreciated over the reduced estimated useful life or an extraordinary amortization is booked.

Other intangible assets (incl. capitalized project costs)

Other intangible assets are capitalized if they will bring an identifiable future economic benefit to the Bank. Internally generated intangible assets are capitalized only if the following criteria are met cumulatively:

- The intangible asset is clearly identifiable and fully controlled by the entity.
- The costs of the asset can be measured reliably. However, only external expenses are recognized.
- It is probable that the necessary resources will be available until completion.

Other intangible assets include consultancy costs relating to projects that are capitalizable according to the previously mentioned criteria. Other intangible assets are capitalized only when the purchase price exceeds the threshold of CHF 150 000 per project. When the purchase price or the expenses for internally generated intangible assets are below this threshold, the respective intangible asset is recognized as an expense when incurred.

Other intangible assets are valued at purchase price and are depreciated over their estimated useful lives, with a maximum of 10 years, through the income statement, using the straight-line method. Depreciation begins for internally generated intangible assets once they start generating economic benefits.

An annual evaluation for signs of impairment is carried out. In the event that this evaluation results in a reduction of the estimated useful life or a decline in value, the residual book value is depreciated over the reduced estimated useful life or an impairment is booked.

Liabilities from pension plans

Falcon Private Bank Group maintains pension plans for its staff, in accordance with the requirements of local laws. The Group bears the cost of the pension plans for its staff and, in the event of death, its legal successors, in compliance with local requirements and laws. The underlying liabilities of the pension plans, as well as the assets providing coverage, are outsourced to legally independent foundations. Organization, funding and management of the pension plans conform with the local legal requirements, the deeds of the foundations,

and the governing regulations of the pension plans. All pension plans of Falcon Private Bank are defined contribution plans. The employer's contributions to these pension plans are accrued under "personnel expenses".

Falcon Private Bank Group applies the principles of FER 16. Annual revaluations and recalculations are performed to ascertain whether there are economic benefits or liabilities for the Group resulting from pension plans. The basis for this assessment includes contracts, annual financial statements of the pension plans, prepared according to FER 26, and other calculations that reflect the financial situation as well as the existing excess or shortage for each pension plan. Falcon Private Bank in Switzerland engages a pension expert in order to assess whether economic benefits or liabilities exist.

The resulting economic benefits and/or liabilities are recorded in the balance sheet. Changes in value versus the previous year are recognized in the income statement under "personnel expenses".

Results from commission and fee activities

Income and expenses from commission and fee activities are in principle reported on a gross basis. As an exception, retrocessions and consulting fees payable that were agreed in advance in writing and are calculated on the same basis as the commissions receivable are reported on a net basis.

Taxes

Recurring taxes

Recurring taxes are generally annual taxes payable on the profit and the capital. These taxes are based on the net profit, calculated in accordance with the local tax regulations, and reported as an expense in the profit and loss statement in the period for which the corresponding profit has occurred.

Tax liabilities due, based on the current net profit and the capital as per balance sheet date, are reflected under "accrued expenses". If the sum of prepaid taxes exceeds the sum of the calculated tax liabilities, the surplus amount is reflected under "prepaid expenses".

Deferred taxes

The tax impact deriving from timing differences between the values of assets and liabilities reported in the Group's balance

sheet and their tax values is taken into account by reflecting this deferred tax liability under "provisions and valuation adjustments".

Potential tax receivables resulting from timing differences or losses carried forward are capitalized when it is likely that sufficient future taxable profits can be offset against these timing differences or losses carried forward. Potential tax liabilities and receivables are set off against each other only if they relate to the same tax subject and the same tax jurisdiction and the offset is enforceable by law. Changes to the provision for deferred taxes are booked to "taxes" (increase) or "extraordinary income" (decrease) on the profit and loss statement.

The calculation is based on an adequate, estimated average tax rate, which is disclosed in the notes.

Valuation adjustments and provisions

Provisions and valuation adjustments are made for all recognizable risks at the balance sheet date. A provision for operational risks is reflected in the position "valuation adjustments and provisions for other business risks". Provisions that are no longer required are released through "extraordinary income" on the profit and loss statement.

Contingent liabilities and irrevocable commitments

Contingent liabilities and irrevocable commitments are reported at nominal value as off-balance sheet items. Specific provisions are made for identifiable loss risks and are reflected in the position "valuation adjustments and provisions."

Derivative financial instruments

Trading transactions

Positive and negative replacement values arising from derivative financial instruments are stated at their fair value and are recorded under "other assets" and "other liabilities" respectively. The fair value is primarily based on market prices. If no market prices are available, the value is determined through discounted cash-flow or option pricing models.

Positive and negative replacement values are not set off against each other. Traded options and warrants bought for clients on a commission basis are not included in the financial statements.

Realized and unrealized profits and losses from trading activity are reflected under “result from trading operations”.

Hedging transactions

Hedging transactions are subject to the same valuation principles as the underlying transactions they hedge. The profit due to hedging is attributed to the same profit and loss account as the corresponding profit or loss from the underlying hedged transaction. Unrealized profits and losses from such transactions are booked to a compensation account on the balance sheet. Realized profits or losses due to the early disposal of or closing of hedging positions are amortized over the period from when the disposal or closing occurred until the maturity date of the hedged underlying transaction.

Hedging relations, targets and strategies of hedging activities are documented by the Group at the time when such transactions are made. The effectiveness of hedging relations is monitored on a regular basis. Hedging transactions are fully or partially treated as trading transactions the moment the hedging relations are no longer entirely or partially effective.

Changes in accounting policies and valuation principles

The accounting policies and valuation principles have been changed in the following respects compared with the previous year:

Interest and dividend income from trading positions are now shown as part of “net result from interest activities” (position “interest and dividend income on securities held for trading”). The figures for 2011 were adapted accordingly to enable a comparison.

SUBSIDIARIES AND SIGNIFICANT PARTICIPATIONS

Note 1 – Consolidated Participations and Significant Participations

Company name, domicile	Business activity	Capital in 1000	Share 2012 in %	Share 2011 in %
Fully consolidated subsidiaries				
Falcon Fund Management (Luxembourg), Luxembourg	Fund management	411 EUR	100	100
IFS Independent Financial Services AG, Lucerne	Asset management	500 CHF	70	70
Falcon Private Financial Advisory LLC, Abu Dhabi*	Financial services	1 000 AED	49	49
Falcon Europe AG, Vienna (liquidated)	inactive	0 EUR	0	100
Falcon AG, Dubendorf (liquidated)	inactive	0 CHF	0	100
Minority interests				
bank zweiplus ag, Zurich (valued according to equity method)	Bank	35 000 CHF	43	43

* Falcon Private Bank holds a 49 % interest in Falcon Private Advisory LLC, Abu Dhabi. In a separate agreement with the majority shareholder, it was agreed that all rights and duties of the majority shareholder in this company are to be assigned to Falcon Private Bank, thus giving Falcon Private Bank 100 % control of the company.

For further changes in the significant participations please refer to the description of business activities.

CONSOLIDATED BALANCE SHEET INFORMATION

Note 2 – Collateral for Loans and Off-Balance Sheet Items

in 1000 CHF	Secured by mortgages	Secured by other collateral	Unsecured	Total
Loans and advances				
Due from customers	0	958 073	308 543	1 266 616
Mortgage loans	1 819	0	0	1 819
Total loans and advances 2012	1 819	958 073	308 543	1 268 435
Total loans and advances 2011	12 842	1 003 224	247 667	1 263 733

in 1000 CHF	Secured by mortgages	Secured by other collateral	Unsecured	Total
Off-balance sheet items				
Contingent liabilities	0	8 402	4	8 406
Irrevocable commitments	22 875	0	2 058	24 933
Total off-balance sheet items 2012	22 875	8 402	2 062	33 339
Total off-balance sheet items 2011	23 375	7 257	2 077	32 709

in 1000 CHF	Gross amount due	Estimated liquidation proceeds from collateral	Net amount due	Individual valuation adjustments
Receivables at risk 2012	25 445	9 245	16 200	16 200
Receivables at risk 2011	21 971	0	21 971	21 971

Note 3a – Securities and Precious Metals Held for Trading Purposes

in 1000 CHF	2012	2011
Quoted interest bearing securities	261 039	319 202
Non-quoted interest bearing securities	82 473	0
Equities and mutual funds	240	387
Precious metals	991	2 494
Total securities and precious metals held for trading purposes	344 743	322 083
thereof, securities which are rediscountable with the Central Bank	296 728	226 320

Note 3b – Financial Investments

in 1000 CHF	Book value		Fair Value	
	2012	2011	2012	2011
Interest bearing securities held to maturity	0	0	0	0
Debt securities reported at the lower of cost or market	0	0	0	0
Equities and mutual funds	11 687	12 999	12 744	14 068
Total financial investments	11 687	12 999	12 744	14 068
thereof, securities which are rediscountable with the Central Bank	0	0	0	0

Note 3c – Participations

in 1000 CHF	2012	2011
Quoted	0	0
Non-quoted	20 188	20 212
Total participations	20 188	20 212

Note 4 – Movements in Non-Consolidated Participations, Tangible Fixed Assets and Intangible Assets

in 1000 CHF	Historical costs	Accumulated depreciation	Net book value as of 31.12.11	Transfers 2012	Additions 2012	Disposals 2012	Depreciation 2012	Valuation adjustment of participations valued by the equity method	Net book value as of 31.12.12
Participations									
Valued according to the equity method	14 875	4 451	19 326	0	0	0	0	0	19 326
Other	1 089	-203	886	0	0	-6	-18	0	862
Total participations	15 964	4 248	20 212	0	0	-6	-18	0	20 188

Tangible fixed assets									
Leasehold improvements	18 833	-15 927	2 906	78	0	0	-1 455	0	1 529
Software	10 116	-9 267	849	5	1 147	-78	-185	0	1 738
Other fixed assets	37 093	-35 604	1 489	-83	952	-272	-783	0	1 303
Total tangible fixed assets	66 042	-60 798	5 244	0	2 099	-350	-2 423	0	4 570

Intangible assets									
Goodwill	0	0	0	0	0	0	0	0	0
Capitalized project costs	0	0	0	0	6 401	0	0	0	6 401
Total intangible assets	0	0	0	0	6 401	0	0	0	6 401

The CHF 6.4 million of capitalized project costs are external costs relating to the transition to a new core-banking software.

The writedowns will begin simultaneously with the completion of the project in 2013.

Fire insurance value for fixed assets	10 450
Commitments from future leasing payments	410

Note 5 – Loans and Advances to Affiliated Entities and to Members of the Bank's Statutory Bodies and Significant Shareholders

in 1000 CHF	2012		2011	
	Due from	Due to	Due from	Due to
Affiliated companies	0	0	0	0
Members of the bank's statutory bodies and significant shareholders	450	0	250	0

Related Party Transactions

The line item Due to non-consolidated Group companies and significant shareholders in the amount of CHF 120.5 million consists mainly of a time deposit of the ultimate parent company of CHF 91.5 million and the parent company's subordinated loan in the amount of CHF 28.2 million (remained unchanged in 2012).

As of December 31, 2012 there were no items due to or from related parties.

The loans to members of the Bank's statutory bodies and significant shareholders are granted on standard loan-to-value terms. Special interest rates for employees apply.

All transactions with related parties, with the exception of loans to members of the Bank's statutory bodies and significant shareholders, were executed on the same conditions as would apply for third parties.

Note 6a – Assets Pledged or Assigned as Collateral for own Liabilities and Assets under Reservation of Title

in 1000 CHF	2012		2011	
	Book value of assets	Actual commitments	Book value of assets	Actual commitments
Pledged assets				
Money market papers	0	0	0	0
Due from banks	686	0	0	0
Securities and precious metals held for trading purposes	49 100	70 650	40 681	18 860
Financial investments	0	0	0	0
Total pledged assets	49 786	70 650	40 681	18 860

As of December 31, 2010 there are no assets subject to reservation of title.

Note 6b – Liabilities to own Pension and Welfare Plans

in 1000 CHF	2012	2011
Other amounts due to customers	1 991	174
Total commitments to own pension and welfare plans	1 991	174

Note 6c – Information about Own Pension Plans

in 1000 CHF	Nominal value as of 31.12.12	Balance as of 31.12.12	Balance as of 31.12.11	Result in personnel expenses 2012	Result in personnel expenses 2011
Employer contribution reserves					
BVG foundation of Falcon Private Bank, Zurich	5 710	5 710	7 114	-1 406	-1 616

in 1000 CHF	Excess/shortage as of 31.12.12	Benefit to the bank as of 31.12.12	Benefit to the bank as of 31.12.11	Impact on income statement as of 31.12.12	Accrued expenses as of 31.12.12	Cost of retirement benefits 2012	Cost of retirement benefits 2011
Economic benefit							
BVG foundation of Falcon Private Bank, Zurich	0	0	0	0	0	-2 837	-3 110

All employees of the Falcon Private Bank Group who work in Switzerland and have completed their 17th year of age are insured with the BVG foundation of Falcon Private Bank. Employees with fixed term contracts not exceeding 3 months are not included. The pension fund is a defined contribution plan.

Employer contribution reserves

The employer contribution reserves equal the nominal value shown in the financial statements of the pension fund. They are reported under "other assets". There is a valuation adjustment of CHF 1.1 million (previous year CHF 1.1 million) for the case of a possible waiver of usage (see note 7), which was created in 2009 due to an undercoverage. In addition, employer contribution reserves of CHF 1.4 million (previous year CHF 1.6 million) were used to pay insurance premiums. Any discount effect is disregarded and no interest is applied.

Economic benefit/liability arising from excess/shortage

As of December 31, 2012, the pension fund had a coverage ratio of 106.7% (previous year 95.9%); the Bank itself, however, has no economic benefit or obligation.

Foreign pension plans

In view of their size, the foreign pension plans are negligible for the Group as a whole. They have neither a shortage nor a surplus.

Note 6d – Securities Lending and Repurchase Transactions

in 1000 CHF	2012	2011
Claims from cash deposits relating to securities borrowing and reverse repurchase transactions	0	0
Obligations from cash deposits relating to securities lending and repurchase transactions	0	0
Securities in own possession relating to securities lent out (securities lending) or securities deposited as collateral (securities borrowing) and securities transferred (repurchase transactions)	0	13 933
Of which securities for which unrestricted rights to sell or pledge have been granted	0	0
Securities received as collateral (securities lending) or securities borrowed (securities borrowing) or securities received (reverse repurchase transactions) for which unrestricted rights to sell or pledge have been granted	0	315
Of which sold or pledged	0	315

Note 7 – Valuation Adjustments, Provisions and Reserves for General Banking Risks

in 1000 CHF	Balance as of 31.12.11	Used as intended	Recoveries, doubtful interests and forex differences	New creation charged to profit and loss account	Reversals credited to profit and loss account	Change in scope of consolidation	Balance as of 31.12.12
Valuation adjustments and provisions for identifiable loan losses and other risks							
Valuation adjustments and provisions for identifiable loan losses (credit and country risks)	21 971	-11 082	-247	11 442	-5 884	0	16 200
Valuation adjustments and provisions for other business risks	2 164	-1 182	1	1 740	0	0	2 723
Restructuring provisions	131	-120	-11	0	0	0	0
Valuation adjustment employer contribution reserves	1 055	0	0	0	0	0	1 055
Total valuation adjustments and provisions as per consolidated balance sheet	25 321	-12 384	-257	13 182	-5 884	0	19 978
Reserves for general banking risks (taxed)	3 000	0	0	0	0	0	3 000

The valuation adjustments and provisions for identifiable loan losses include individual valuation adjustments on credit positions of CHF 16.2 million, which were established in accordance with the accounting policies and valuation principles.

The valuation adjustments and provisions for other business risks contain provisions for legal risks of CHF 1.8 million and provisions for operational risks of CHF 0.9 million. Each case is assessed individually. The amount of the provisions is based on the maximum presumed loss that would arise, taking into consideration the probability of occurrence, for each event.

There are no lump-sum provisions.

On the basis of our current risk assessment, we see no need to establish a provision in connection with the Federal Supreme Court's decision of October 30, 2012, concerning the obligation to repay retrocessions.

Note 8 – Statement of Changes in Shareholders' Equity

in 1000 CHF	
Shareholders' equity as of 1.1.2012	
Share capital	120 000
Profit reserve	53 644
Reserves for general banking risks	3 000
Minority interest	419
Consolidated net profit	10 559
Total shareholders' equity as of 1.1.2012 (before appropriation of profit)	187 622
Dividend payment	0
Dividend payment to minority shareholders	-630
Consolidated net profit 2012	52 122
Foreign currency translation adjustment	37
Total shareholders' equity as of 31.12.2012 (before appropriation of profit)	239 151
of which	
- Share capital	120 000
- Profit reserve	63 607
- Reserves for general banking risks	3 000
- Minority interest	422
- Consolidated net profit	52 122

The profit reserve contains non-distributable legal reserves of CHF 21 million.

Note 9a – Maturity Structure of Current Assets and Liabilities

in 1000 CHF	On demand	Subject to notice	Due within 3 months	Due from 3 months up to 12 months	Due from 12 months up to 5 years	Due from 5 years	Total
Current assets							
Cash	55 035	0	0	0	0	0	55 035
Money market papers	31 536	0	0	0	0	0	31 536
Due from banks	181 595	0	0	0	0	0	181 595
Due from customers	0	35 112	1 073 653	154 435	3 416	0	1 266 616
Mortgage loans	0	569	0	1 250	0	0	1 819
Securities and precious metals held for trading purposes	1 232	0	34 009	99 764	176 820	32 918	344 743
Financial investments	11 687	0	0	0	0	0	11 687
Total current assets 2012	281 085	35 681	1 107 662	255 449	180 236	32 918	1 893 031
Total current assets 2011	687 761	131 837	889 711	232 494	9 691	0	1 951 494
Liabilities							
Money market papers	0	0	357	0	0	0	357
Due to banks	65 898	0	10 030	0	39 345	0	115 273
Due to customers with savings and deposit accounts	0	0	0	0	0	0	0
Other amounts due to customers	996 951	0	320 295	200 200	0	28 150	1 545 596
Total liabilities 2012	1 062 849	0	330 682	200 200	39 345	28 150	1 661 226
Total liabilities 2011	1 044 171	0	419 228	232 866	40 205	28 150	1 764 620

Note 9b – Assets and Liabilities by Domestic and Foreign Origin

in 1000 CHF	2012		2011	
	Domestic	Foreign	Domestic	Foreign
Assets				
Cash	49 744	5 291	169 179	6 204
Money market papers	0	31 536	422	33 867
Due from banks	71 995	109 600	36 190	106 817
Due from customers	41 469	1 225 147	46 101	1 204 790
Mortgage loans	569	1 250	11 542	1 300
Securities and precious metals held for trading purposes	19 519	325 224	26 548	295 535
Financial investments	6 311	5 376	124	12 875
Participations	20 188	0	20 194	18
Tangible fixed assets	4 567	3	5 138	106
Intangible assets	6 401	0	0	0
Accrued income and prepaid expenses	5 279	11 353	5 359	12 948
Other assets	25 696	2 043	39 375	1 395
Total assets	251 738	1 716 823	360 172	1 675 855
Liabilities and shareholders' equity				
Money market papers	357	0	39	0
Due to banks	21 922	93 351	132 174	150 745
Due to customers with savings and deposit accounts	0	0	0	0
Other amounts due to customers	649 931	895 665	646 688	834 974
Accrued expenses and deferred income	23 664	3 064	20 777	3 188
Other liabilities	20 699	779	33 667	832
Valuation adjustments and provisions	19 978	0	25 211	110
Reserves for general banking risks	3 000	0	3 000	0
Share capital	120 000	0	120 000	0
Profit reserve	60 909	2 698	53 423	221
Minority interest in shareholders' equity	422	0	419	0
Consolidated net profit	51 391	731	9 954	605
of which minority interest	821	0	623	0
Total liabilities and shareholders' equity	972 273	996 288	1 045 352	990 675

Note 9c – Assets by Country and Region

in 1000 CHF	2012		2011	
	Amount	Share in %	Amount	Share in %
Europe				
– Switzerland	251 737	12	360 172	19
– Germany	80 197	4	74 892	4
– France	32 438	2	20 926	1
– Great Britain	67 065	3	81 821	4
– Italy	21 605	1	25 317	1
– Spain	897	0	17 689	1
– Luxembourg	11 996	1	22 201	1
– Netherlands	98 491	5	112 587	6
– Belgium	811	0	246	0
– Austria	20 775	1	2 520	0
– Other	187 519	10	230 071	11
North America	263 118	13	293 976	14
South America	28 782	1	9 334	0
Oceania	71 363	4	27 569	1
Asia	820 909	42	748 114	37
Africa	10 858	1	8 592	0
Total assets	1 968 561	100	2 036 027	100

Note 9d – Assets and Liabilities by Major Currencies

Converted in 1000 CHF	CHF	EUR	USD	Other	Total
Assets					
Cash	48 718	1 941	101	4 275	55 035
Money market papers	0	0	0	31 536	31 536
Due from banks	61 631	31 370	33 387	55 207	181 595
Due from customers	84 958	198 546	885 035	98 077	1 266 616
Mortgage loans	1 819	0	0	0	1 819
Securities and precious metals held for trading purposes	310 108	8 341	22 537	3 757	344 743
Financial investments	139	6 297	5 209	42	11 687
Participations	20 188	0	0	0	20 188
Tangible fixed assets	4 567	0	0	3	4 570
Intangible assets	6 401	0	0	0	6 401
Accrued income and prepaid expenses	6 919	2 524	6 516	673	16 632
Other assets	25 520	750	15	1 455	27 740
Total on-balance sheet assets	570 968	249 769	952 800	195 025	1 968 562
Delivery claims from foreign exchange spot, forward and option transactions (net)	307 611	293 430	383 790	190 451	1 175 282
Total assets	878 579	543 199	1 336 590	385 476	3 143 844
Liabilities and shareholders' equity					
Money market papers	43	10	303	1	357
Due to banks	12 450	6 069	85 208	11 546	115 273
Due to customers with savings and deposit accounts	0	0	0	0	0
Other amounts due to customers	312 551	271 837	766 624	194 584	1 545 596
Accrued expenses and deferred income	20 354	3 815	1 890	669	26 728
Other liabilities	20 573	155	24	727	21 479
Valuation adjustments and provisions	5 225	8 303	6 450	0	19 978
Reserves for general banking risks	3 000	0	0	0	3 000
Share capital	120 000	0	0	0	120 000
Profit reserve	63 607	0	0	0	63 607
Minority interest in shareholders' equity	422	0	0	0	422
Consolidated net profit	52 122	0	0	0	52 122
of which minority interest	821	0	0	0	821
Total on-balance sheet liabilities and shareholders' equity	610 347	290 189	860 499	207 527	1 968 562
Delivery obligations from foreign exchange spot, forward and option transactions (net)	272 760	248 406	472 647	179 573	1 173 386
Total liabilities and shareholders' equity	883 107	538 595	1 333 146	387 100	3 141 948
Net position per currency	-4 528	4 604	3 444	-1 624	

Note 10 – Other Assets and Liabilities

in 1000 CHF	2012		2011	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values of derivatives				
Contracts as principal				
– proprietary positions relating to trading	18 205	16 309	30 122	30 619
– proprietary positions relating to hedges	0	1 795	0	0
Contracts with clients on a bank-to-bank basis	1 061	1 061	1 014	1 014
Compensation account	0	0	0	0
Employer contribution reserves to pension funds	5 710	0	7 114	0
Other assets and liabilities	2 764	2 314	2 520	2 866
Total other assets and liabilities	27 740	21 479	40 770	34 499

CONSOLIDATED OFF-BALANCE SHEET ITEMS

Note 11a – Classification of Contingent Liabilities

in 1000 CHF	2012	2011
Credit guarantees	2504	1166
Performance guarantees	3771	3795
Guarantees for fund subscriptions	2131	2299
Total contingent liabilities	8406	7260

Note 11b – Classification of Outstanding Derivative Instruments

in 1000 CHF	Trading instruments			Hedging instruments		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Interest rate instruments						
Forward contracts incl. FRAs	0	0	0	0	0	0
Swaps	0	0	0	0	1795	50000
Futures	15	15	12310	0	0	0
Options (OTC)	0	0	0	0	0	0
Foreign exchange instruments						
Forward contracts	17862	16017	1133829	0	0	0
Futures	244	244	26865	0	0	0
Options (OTC)	13	13	14302	0	0	0
Precious metal instruments						
Forward contracts	51	0	601	0	0	0
Futures	0	0	0	0	0	0
Options (OTC)	20	20	1056	0	0	0
Equities and indices instruments						
Forwards (OTC)	0	0	0	0	0	0
Futures	193	193	22379	0	0	0
Options (traded)	0	0	0	0	0	0
Options (OTC)	868	868	22574	0	0	0
Other						
Futures	0	0	0	0	0	0
Total before consideration of netting agreements 2012	19266	17370	1233916	0	1795	50000
Total before consideration of netting agreements 2011	31136	31633	2273236	0	0	0

in 1000 CHF	Accumulated positive replacement values	Accumulated negative replacement values
Total after consideration of netting agreements 2012	19266	19165
Total after consideration of netting agreements 2011	31136	31633

Note 11c – Classification of Outstanding Derivative Instruments by Counterparties

in 1000 CHF	2012			2011		
	Positive replacement value	Negative replacement value	Contract volume	Positive replacement value	Negative replacement value	Contract volume
Banks and brokers	16 955	13 287	971 881	6 999	24 029	1 183 321
Customers	2 311	5 878	312 035	24 137	7 604	1 089 915
Total outstanding derivative instruments by counterparties	19 266	19 165	1 283 916	31 136	31 633	2 273 236

Note 11d – Fiduciary Items

in 1000 CHF	CHF	USD	EUR	Other	Total
Fiduciary placements with third parties	0	205 582	34 865	111 723	352 170
Fiduciary loans	0	152 805	174 484	196 397	523 686
Total fiduciary items 2012	0	358 387	209 349	308 120	875 856
Total fiduciary items 2011	2 095	200 957	90 042	358 750	651 844

Note 12 – Client Assets

in 1 000 000 CHF	2012	2011
Own managed mutual funds	1 060	1 759
Third-party managed private label funds (the Bank is custodian and fund administrator)	101	111
Assets with discretionary mandates	612	633
Other client assets	10 371	8 792
Total client assets (double counting incl.)	12 144	11 295
of which		
– double counting	158	210
– net new assets inflow/outflow	664	944

The Group has no client assets that are held for custody only. For all of the assets listed above, additional services are provided, which go beyond pure custody services.

For the evaluation of the net new assets inflow/outflow all types of transactions are coded in the core banking system in such a way that every transaction can be identified as either a cash inflow or outflow.

The total net inflow or outflow is determined on the basis of reports from the core banking system. Interests, commissions and fees charged to clients are components of the performance and are not considered as outflow.

The net in- or outflow from assets not under custody with the Group are not included in the net inflow of CHF 664 million reported in 2012.

Of the assets under custody with third parties, CHF 1 906 million (previous year CHF 2 107 million) are related to client assets held by bank zweiplus, of which Falcon Private Bank holds a participation of 42.5%. The client assets considered in this note equal 42.5% of the total clients assets reported by bank zweiplus.

CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

Note 13a – Net Result from Trading Operations

in 1000 CHF	2012	2011
Net income from debt securities and interest futures	13 664	-6 815
Net income from foreign currency trading	7 509	8 971
Net income from precious metal trading	239	387
Net income from shares and other equity related instruments	249	-1 211
Total net result from trading operations	21 661	1 332

Interest and dividend income from trading positions are now listed under “net result from interest activities” as a separate position (prior-year figures were adjusted).

See “Changes in accounting policies and valuation principles”.

Note 13b – Personnel Expenses

in 1000 CHF	2012	2011
Salaries	-50 191	-46 392
Social security contributions	-5 659	-6 023
Other personnel expenses	-4 348	-4 250
Total personnel expenses	-60 198	-56 665

Note 13c – Other Operating Expenses

in 1000 CHF	2012	2011
Occupancy expenses	-7 901	-7 053
Information technology, furniture, vehicles, and other equipment	-6 626	-6 765
Travel and entertainment	-2 250	-2 120
Consulting and service fees	-12 636	-13 273
Other expenses	-18 670	-18 733
Total other operating expenses	-48 083	-47 945

Note 13d – Extraordinary Income and Expenses

The extraordinary income of CHF 59.1 million consists largely of two cash contributions from aabar Investments PJS.

Note 13e – Income and Expenses from Ordinary Banking Activities

in 1000 CHF	2012		2011	
	Domestic	Foreign	Domestic	Foreign
Results from interest activities				
Interest and discount income	25 113	16 146	22 485	11 227
Interest and dividend income on securities held for trading	7 341	1 345	8 277	1 227
Interest and dividend income on financial investments	661	666	2 871	1 279
Interest expenses	-2 052	-11 662	-4 093	-8 751
Net result from interest activities	31 063	6 495	29 540	4 982
Results from commission and fee activities				
Commission and fee income from lending activities	3 548	0	4 683	0
Commission and fee income from securities and investment activities	43 925	6 524	37 591	6 054
Commission and fee income from other services rendered	1 651	24	610	122
Commission expenses	-5 950	-149	-6 323	-447
Net result from commission and fee activities	43 174	6 399	36 561	5 729
Net result from trading operations	19 990	1 671	1 277	55
Other ordinary income and expenses				
Profit on sales of financial investments	35	0	-563	0
Income from equity participations according to the equity method	0	0	4 535	0
Income from other non-consolidated participations	42	0	132	0
Rental income	85	0	62	0
Other ordinary income	453	0	738	0
Other ordinary expenses	-523	0	-1 458	0
Other ordinary income and expenses	92	0	3 446	0
Operating expenses				
Personnel expenses	-52 238	-7 960	-48 305	-8 360
Other operating expenses	-44 209	-3 874	-44 049	-3 896
Operating expenses	-96 447	-11 834	-92 354	-12 256
Gross result	-2 128	2 731	-21 530	-1 490

Note 13f – Taxes

in 1000 CHF	2012	2011
Increase of provisions for deferred taxes	0	0
Release of provisions for deferred taxes	0	0
Current income and capital taxes	-1 096	-803
Total taxes	-1 096	-803
Non-considered tax reductions on losses carried forward and for precautionary reasons-non activated tax credits	2 900	4 400

REPORT OF THE AUDITOR

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Falcon Private Bank Ltd., which comprise the balance sheet, income statement and notes (pages 10 until 34), for the year ended December 31, 2012. The prior period consolidated financial statements were audited by another auditor who expressed an unqualified opinion thereon in a report dated March 21, 2012.

Board of Directors' responsibility

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also

includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2012 give a true and fair view of the financial position and the results of operations in accordance with Swiss banking law and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

Ernst & Young Ltd

Thomas Schneider
Licensed audit expert
(Auditor in charge)

Philipp Gämperle
Licensed audit expert

Zurich, March 15, 2013

FINANCIAL STATEMENTS

FALCON PRIVATE BANK LTD.

BALANCE SHEET AS OF DECEMBER 31

in 1000 CHF

	Notes	2012	2011
Assets			
Cash		55 035	175 383
Money market papers		31 536	34 289
Due from banks		178 981	142 049
Due from customers		1 266 616	1 250 891
Mortgage loans		1 819	12 842
Securities and precious metals held for trading purposes		344 743	322 083
Financial investments		11 669	12 876
Participations	1	16 074	21 360
Tangible fixed assets		10 971	5 234
Accrued income and prepaid expenses		15 892	17 909
Other assets	8	26 886	40 318
Total assets		1 960 222	2 035 234
Total subordinated assets		23 016	0
Total due from group entities and significant shareholders		1 892	1 411
Liabilities and shareholders' equity			
Money market papers		357	39
Due to banks		115 273	282 919
Due to customers with savings and deposit accounts		0	0
Other amounts due to customers		1 553 063	1 496 932
Accrued expenses and deferred income		22 589	21 077
Other liabilities	8	21 374	34 428
Valuation adjustments and provisions	5	19 978	25 190
Reserves for general banking risks	7	3 000	3 000
Share capital	7	120 000	120 000
General legal reserve	7	21 010	21 010
Other reserves	7	108 915	108 915
Retained earnings	7	-78 276	-88 293
Net profit	7	52 939	10 017
Total liabilities and shareholders' equity		1 960 222	2 035 234
Total subordinated liabilities		28 150	28 150
Total due to group entities and significant shareholders		129 669	136 781

Off-Balance Sheet Items as of December 31

	Notes	2012	2011
Contingent liabilities		8 406	7 272
Irrevocable commitments		24 933	25 449
Liabilities for calls on shares		0	0
Derivative instruments			
– positive replacement values		19 266	31 136
– negative replacement values		19 165	31 633
– contract volume		1 283 916	2 273 236
Fiduciary items	9	875 856	651 844

PROFIT AND LOSS ACCOUNT

in 1000 CHF

Income and Expenses from Ordinary Banking Activities

	Notes	2012	2011
Results from interest activities			
Interest and discount income		38 505	31 557
Interest and dividend income on securities held for trading		8 686	9 504
Interest and dividend income on financial investments		1 327	4 077
Interest expenses		-13 713	-12 844
Net result from interest activities		34 805	32 294
Results from commission and fee activities			
Commission and fee income from lending activities		3 545	4 680
Commission and fee income from securities and investment activities		44 458	37 772
Commission and fee income from other services rendered		1 645	718
Commission expenses		-6 099	-6 738
Net result from commissions and fees		43 549	36 432
Net result from trading operations	10	20 953	485
Other ordinary income and expenses			
Profit on sales of financial investments		-130	-563
Income from participations		4 333	7 001
Rental income		85	40
Other ordinary income		748	1 379
Other ordinary expenses		-443	-1 386
Other ordinary income and expenses		4 593	6 471
Operating expenses			
Personnel expenses		-58 196	-54 517
Other operating expenses		-45 680	-45 319
Operating expenses		-103 876	-99 836
Gross result		24	-24 154

Net Profit

	Notes	2012	2011
Gross result		24	-24 154
Depreciation of fixed assets and intangible assets		-2 824	-12 776
Valuation adjustments, provisions and losses		-3 629	-11 868
Result before extraordinary items and taxes		-6 429	-48 798
Extraordinary income	11	59 835	59 031
Extraordinary expenses		-17	-14
Taxes		-450	-202
Net profit		52 939	10 017

RESOLUTION OF THE SHAREHOLDERS' MEETING

in 1000 CHF

	2012	2011
Net profit	52 939	10 017
Accumulated deficit/retained earnings	-78 276	-88 293
Available for distribution	-25 337	-78 276

For the Shareholders' Meeting the following appropriation is proposed:		
Allocation to general legal reserves	0	0
Allocation to other reserves	0	0
Ordinary dividend	0	0
Losses carried forward	-25 337	-78 276
Total	-25 337	-78 276

DESCRIPTION OF BUSINESS ACTIVITIES

The business activities of Falcon Private Bank Ltd. (“the Bank”) are described in the notes to the consolidated financial statements of Falcon Private Bank Group.

At the close of the 2012 fiscal year, the Bank had 294 employees (expressed in full-time equivalents), compared with 285 in the year 2011.

ACCOUNTING POLICIES AND VALUATION PRINCIPLES

The financial statements of Falcon Private Bank Ltd. (“the Bank”) have been prepared in accordance with the provisions of the Swiss Federal Code of Obligations, the Federal Law on Banks and Savings Banks, the Federal Stock Exchange Act, and the related Implementing Ordinances as well as the guidelines issued by FINMA.

In general, the Bank’s financial statements are based on the same accounting policies and valuation principles used for the consolidated annual accounts (“the consolidated financial statements”). Unlike the consolidated financial statements of the Falcon Private Bank Group, which present a “true and fair view” of the actual financial position and the results of operations, the Bank’s financial statements may be impacted by undisclosed reserves.

The reserves for general banking risks have been taxed.

BALANCE SHEET INFORMATION

Note 1 – Participations

in 1000 CHF	2012	2011
Quoted	0	0
Non-quoted	16 074	21 360
Total participations	16 074	21 360

Note 2 – Loans and Advances to Affiliated Entities and to Members of the Bank's Statutory Bodies and Significant Shareholders

in 1000 CHF	2012		2011	
	Due from	Due to	Due from	Due to
Affiliated companies	0	0	0	0
Members of the bank's statutory bodies and significant shareholders	450	0	250	0

Related Party Transactions

Essentially, we refer to the information provided in the notes to the consolidated financial statements.

The amounts due from and due to Group companies and qualified participations additionally include amounts due from and due to consolidated subsidiaries of Falcon Private Bank.

Note 3 – Assets Pledged or Assigned under Reservation of Title

in 1000 CHF	2012		2011	
	Book value	Actual commitments	Book value	Actual commitments
Pledged assets				
Money market paper	0	0	0	0
Due from banks	686	0	0	0
Securities and precious metals held for trading purposes	49 100	70 650	40 681	18 860
Financial investments	0	0	0	0
Total pledged assets	49 786	70 650	40 681	18 860

There are no assets subject to reservation of title.

Note 4 – Liabilities to Own Pension and Welfare Plans

in 1000 CHF	2012	2011
Other amounts due to customers	1 991	174
Total commitments to own pension and welfare plans	1 991	174

Information regarding pension funds is included in the notes to the consolidated financial statements.

Note 5 – Valuation Adjustments, Provisions and Reserves for General Banking Risks

in 1000 CHF	Balance as of 31.12.11	Used as intended	Recoveries, doubtful interests and forex differences	New creation charged to profit and loss account	Reversals credited to profit and loss account	Balance as of 31.12.12
Valuation adjustments and provisions for identifiable loan losses (credit and country risks)	21 971	-11 082	-247	11 442	-5 884	16 200
Valuation adjustments and provisions for other business risks	2 164	-1 182	1	1 740	0	2 723
Restructuring provisions	0	0	0	0	0	0
Valuation adjustment employer contribution reserves	1 055	0	0	0	0	1 055
Other provisions	0	0	0	0	0	0
Total valuation adjustments and provisions as per balance sheet	25 190	-12 264	-246	13 182	-5 884	19 978
Reserves for general banking risks	3 000	0	0	0	0	3 000

The valuation adjustments and provisions for identifiable loan losses include individual valuation adjustments on credit positions of CHF 16.2 million, which were established in accordance with the accounting policies and valuation principles.

The valuation adjustments and provisions for other business risks contain provisions for legal risks of CHF 1.8 million and provisions for operational risks of CHF 0.9 million. Each case is assessed individually. The amount of the provisions is based on the maximum presumed loss that would arise, taking into consideration the probability of occurrence, for each event.

There are no lump-sum provisions.

On the basis of our current risk assessment, we see no need to establish a provision in connection with the Federal Supreme Court's decision of October 30, 2012, concerning the obligation to repay retrocessions.

Note 6 – Share Capital and Shareholders Controlling More Than 5 % of All Voting Rights

in 1000 CHF	2012			2011		
	Total nominal value	Number of units	Dividend bearing capital	Total nominal value	Number of units	Dividend bearing capital
Capital structure						
Share capital	120 000	30 000	120 000	120 000	30 000	120 000
Total share capital	120 000	30 000	120 000	120 000	30 000	120 000

	2012 Nominal value	2012 Equity in %	2011 Nominal value	2011 Equity in %
Significant shareholders having voting rights				
aabar Investments PJS, Abu Dhabi, of which indirectly qualifying ownership of 95.69 %: International Petroleum Investment Company (IPIC), Abu Dhabi	120 000	100	120 000	100

Note 7 – Statement of Changes in Shareholders' Equity

in 1000 CHF	
Shareholders' equity as of 1.1.2012	
Share capital	120000
General legal reserve	21010
Other reserves	108915
Reserves for general banking risks	3000
Accumulated deficit	-78276
Total shareholders' equity as of 1.1.2012 (before appropriation of profit)	174649
Dividend payment	0
Share capital increase	0
Net profit 2012	52939
Total shareholders' equity as of 31.12.2012 (before appropriation of profit)	227588
of which	
- Share capital	120000
- General legal reserve	21010
- Other reserves	108915
- Reserves for general banking risks	3000
- Accumulated deficit	-25337

Note 8 – Other Assets and Liabilities

in 1000 CHF	2012		2011	
	Other assets	Other liabilities	Other assets	Other liabilities
Replacement values of derivatives				
Contracts as principal				
- proprietary positions relating to trading	18205	16309	30122	30619
- proprietary positions relating to hedges	0	1795	0	0
Contracts with clients on a bank-to-bank basis	1061	1061	1014	1014
Compensation account	0	0	0	0
Employer contribution reserves for pension funds	5710	0	7114	0
Other assets and liabilities	1910	2209	2068	2795
Total other assets and liabilities	26886	21374	40318	34428

OFF-BALANCE SHEET ITEMS AND PROFIT AND LOSS ACCOUNT INFORMATION

Note 9 – Fiduciary Items

in 1000 CHF	CHF	USD	EUR	Other	Total
Fiduciary placements with third parties	0	205 582	34 865	111 723	352 170
Fiduciary loans	0	152 805	174 484	196 397	523 686
Total fiduciary items 2012	0	358 387	209 349	308 120	875 856
Total fiduciary items 2011	2 095	200 957	90 042	358 750	651 844

Note 10 – Net Result from Trading Operations

in 1000 CHF	2012	2011
Net income from debt securities and interest futures	13 664	-6 814
Net income from foreign currency trading	6 801	8 123
Net income from precious metal trading	239	387
Net income from shares and other equity-related instruments	249	-1 211
Total net result from trading operations	20 953	485

Interest and dividend income from trading positions are now listed under “net result from interest activities” as a separate position (prior-year figures were adjusted).

See “Changes in accounting policies and valuation principles”.

Note 11 – Extraordinary Income and Expenses

The extraordinary income of CHF 59.8 million consists largely of two cash contributions from aabar Investments PJS.

REPORT OF THE AUDITOR

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Falcon Private Bank Ltd., which comprise the balance sheet, income statement and notes (pages 38 until 46), for the year ended December 31, 2012. The prior period financial statements were audited by another auditor who expressed an unqualified opinion thereon in a report dated March 21, 2012.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

Ernst & Young Ltd

Thomas Schneider
Licensed audit expert
(Auditor in charge)

Philipp Gämperle
Licensed audit expert

Zurich, March 15, 2013

ADDRESSES

ZURICH HEADQUARTERS

Falcon Private Bank Ltd.
Zurich Headquarters
Pelikanstrasse 37
P.O. Box 1376
8021 Zurich, Switzerland
Phone +41 44 227 55 55
Fax +41 44 211 55 11

ZURICH OPERATIONS CENTER

Falcon Private Bank Ltd.
Operations Center
Hochbordstrasse 1
8600 Dubendorf, Switzerland
Phone +41 44 227 55 55
Fax +41 44 824 66 56

GENEVA BRANCH

Falcon Private Bank Ltd.
Geneva Branch
Rue de la Rôtisserie 1
P.O. Box 3756
1211 Geneva 3, Switzerland
Phone +41 22 318 44 44
Fax +41 22 318 44 45

HONG KONG BRANCH

Falcon Private Bank Ltd.
Hong Kong Branch
Suite 501, 5/F, One IFC
1 Harbour View Street
Hong Kong
Phone +852 2114 6300
Fax +852 2116 0575

SINGAPORE BRANCH

Falcon Private Bank Ltd.
Singapore Branch
#26-01, Centennial Tower
3 Temasek Avenue
Singapore 039190
Phone +65 6494 1200
Fax +65 6538 8131

DUBAI REPRESENTATIVE OFFICE

Falcon Private Bank Ltd.
Dubai Representative Office
Emaar Square
Suite 407, Building 4
P.O. Box 72816
Dubai, United Arab Emirates
Phone +971 4 448 63 00
Fax +971 4 425 79 54

ABU DHABI REPRESENTATIVE OFFICE

Falcon Private Bank Ltd.
Abu Dhabi Representative Office
Das Tower, Suite 1802, Khalidiyah, Corniche Road
P.O. Box 114753
Abu Dhabi, United Arab Emirates
Phone +971 2 222 6666
Fax +971 2 222 2121

SUBSIDIARIES

Falcon Fund Management (Luxembourg)
19, rue de Bitbourg
L-1273 Luxembourg

Falcon Private Financial Advisory LLC.
Das Tower, Suite 1802, Khalidiyah, Corniche Road
P.O. Box 114753
Abu Dhabi, United Arab Emirates
Phone +971 2 222 6655
Fax +971 2 222 2121

IFS Independent Financial Services AG
Waldstätterstrasse 12
CH-6003 Lucerne, Switzerland
Phone +41 41 710 64 30
Fax +41 41 710 64 29

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