

Vontobel Group

VONTOBEL

Annual Report 2009

Bank Vontobel AG

Investor Relations

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As a result of the bundling of the operational Swiss units of the Vontobel Group, the business activities of Bank Vontobel AG expanded significantly in the year under review. Banque Vontobel Genève SA merged with Bank Vontobel AG with retroactive effect from 1 January 2009 and its IT system was successfully migrated to the new Avaloq platform. On 1 October 2009, Commerzbank (Schweiz) AG, which had recently been acquired by Vontobel Holding AG, also merged with Bank Vontobel AG. In the financial year 2010, branches will be opened in Basel and Berne as part of the expansion of Private Banking. The 2009 financial results are not directly comparable with those of the previous year since the 2008 data have not been adjusted to reflect these changes.

Bank Vontobel AG reported a net profit of CHF 63.4 mn for the financial year 2009. This represents a decline of 23% from the previous year. The average return on equity was 12.9%, compared to 21.9% in 2008. The 2009 results were impacted by integration costs of around CHF 10 mn relating to Commerzbank (Schweiz) AG and Banque Vontobel Genève SA. The results also reflect additional expenses related to redundancies that were incurred in connection with the Group-wide cost reduction programme 'Shape'.

As a result of the above-mentioned expansion of business activities, the strong recovery in trading income and the absence of valuation adjustments related to financial assets, operating income grew by 9% to CHF 527.0 mn. While net fee and commission income was almost in line with the previous year at CHF 320.7 mn, net interest income declined by 49% to CHF 56.3 mn due to low interest rates and the resulting narrow interest rate margin. In contrast, trading income rose by 54% to CHF 148.5 mn. This reflects the impressive market share gains achieved by Vontobel Financial Products, which is now the leading provider of listed structured products and derivatives in Switzerland.

Operating expense rose by 21% to CHF 406.7 mn. This included a 42% increase in personnel expense to CHF 284.8 mn, partly reflecting the growth in headcount from 917 to 1,033 employees (FTEs) compared to the previous year, as well as the previously mentioned integration costs and additional expenses related to redundancies in connection with the cost reduction programme 'Shape'. Thanks to the implementation of efficiency-enhancing measures, general expense decreased by 11% to CHF 121.9 mn. Depreciation rose by 20% to CHF 49.9 mn as a result of the completion of the phase of IT investment, as planned. The cost/operating income ratio (cost excl. value adjustments, provisions and losses) increased to 86.6% (previous year: 78.5%). Strict cost management will therefore remain a priority going forward.

Bank Vontobel AG reported CHF 56.1 bn of private and institutional assets under management at the end of 2009, an increase of 16% compared to the previous year. The net inflow of new money totalled CHF 0.7 bn. Custody assets grew by 16% to CHF 40.0 bn, of which CHF 25.6 bn was attributable to the Raiffeisen Group, for which Vontobel performs client custody and global custody activities as part of their long-term strategic cooperation.

Shareholders' equity before the distribution of profits was CHF 608.5 mn at the end of 2009 (previous year: CHF 498.9 mn). Bank Vontobel AG will pay a dividend of CHF 59.6 mn (previous year: CHF 63.8 mn) to Vontobel Holding AG.

	31-12-09 CHF mns	31-12-08 CHF mns	31-12-07 CHF mns	31-12-06 CHF mns	31-12-05 CHF mns
Income statement¹					
Total operating income	527.0	482.8	619.6	529.1	381.1
Net interest income	56.3	110.3	154.6	112.5	62.4
Net fee and commission income	320.7	324.7	289.7	233.2	197.7
Net income from trading operations	148.5	96.7	176.0	186.5	122.9
Other income from ordinary activities	1.5	(48.9)	(0.8)	(3.1)	(1.9)
Operating expense	406.7	337.5	410.1	324.5	253.9
Net operating income	120.3	145.3	209.6	204.6	127.2
Depreciation, write-offs, value-adjustments, provisions and losses	61.9	50.8	31.6	29.3	18.2
Net profit	63.4	81.9	151.6	157.5	92.4
Balance sheet¹					
Total assets	8,980.2	7,089.0	7,768.4	7,432.1	5,550.4
Total shareholders' equity (after distribution of profit)	548.9	435.2	343.4	311.8	254.3
Due from banks	2,283.8	1,471.6	1,617.8	1,220.4	1,563.3
Due from customers	1,503.4	933.8	833.9	737.3	417.6
Securities and precious metals held for trading purposes	1,794.7	1,580.7	3,049.7	4,060.5	2,180.8
Financial investments	743.0	321.6	398.7	318.9	291.3
Due to banks	1,934.6	732.7	1,981.8	1,802.9	684.1
Issued products and short positions in securities	995.9	970.7	1,911.7	2,384.6	1,794.0
Other amounts due to customers	4,557.0	3,525.4	1,453.2	1,421.5	1,757.5
Value adjustments and provisions	151.3	137.8	135.8	140.9	145.9
Headcount (full time equivalents)	1,033	917	767	712	589
Ratios¹					
Average return on equity	12.9	21.9	46.3	55.6	36.9
Net operating income to operating expense	29.6	43.1	51.1	63.1	50.1
Net operating income per employee (FTE) in CHF 1000	123.4	178.4	283.4	314.6	222.0
Cost/income ratio excl. depreciation and amortisation	77.2	69.9	66.2	61.3	66.6
Cost/income ratio incl. depreciation and amortisation	86.6	78.5	70.6	65.0	70.4
Equity ratio	6.1	6.1	4.4	4.2	4.6

¹ No adjustment of the time series was made due to the merger with Banque Vontobel Genève SA and Commerzbank (Schweiz) AG.

Balance sheet

Assets	Appendix	31-12-09 CHF 1000	31-12-08 CHF 1000	Change to 31-12-08 CHF 1000	31-12-08 in %
Liquid assets		1,890,447	1,347,166	543,281	40.3
Money market claims		9		9	
Due from banks		2,283,784	1,471,618	812,166	55.2
Due from customers	1	1,503,429	933,779	569,650	61.0
Securities and precious metals held for trading purposes	2	1,794,738	1,580,732	214,006	13.5
Financial investments	4	742,968	321,596	421,372	131.0
Property, plant and equipment	5	197,011	194,430	2,581	1.3
Accruals and deferrals		134,262	59,198	75,064	126.8
Other assets	6	433,559	1,180,498	(746,939)	(63.3)
Total assets		8,980,209	7,089,016	1,891,193	26.7
Total subordinated claims		5,898	5,884	14	0.2
Total amounts receivable from Group entities and significant shareholders	15	516,279	335,065	181,214	54.1
Liabilities					
Money market liabilities		2,874	583	2,291	393.0
Due to banks		1,934,581	732,700	1,201,881	164.0
Other amounts due to customers		4,556,950	3,525,414	1,031,536	29.3
Issued products and short positions in securities	3	995,917	970,748	25,169	2.6
Accruals and deferrals		223,004	143,697	79,307	55.2
Other liabilities	9	507,070	1,079,088	(572,018)	(53.0)
Value adjustments and provisions	10	151,286	137,822	13,464	9.8
Share capital	11	149,000	85,000	64,000	75.3
Statutory reserves	12	245,992	200,045	45,947	23.0
Other reserves	12	57,600	57,600	0	0
Profit carried forward	12	92,569	74,461	18,108	24.3
Net profit	12	63,366	81,857	(18,491)	(22.6)
Total liabilities		8,980,209	7,089,016	1,891,193	26.7
Total subordinated liabilities			5,884	(5,884)	(100.0)
Total liabilities to Group entities and significant shareholders	15	37,786	32,436	5,350	16.5
Off-balance sheet operations					
Contingent liabilities	20	279,335	96,687	182,648	188.9
Irrevocable commitments	21	11,206	5,852	5,354	91.5
Derivative financial instruments	22				
positive replacement values		426,018	1,174,896	(748,878)	(63.7)
negative replacement values		486,491	1,026,587	(540,096)	(52.6)
contract volume		30,893,676	28,591,997	2,301,679	8.1
Fiduciary transactions	23	2,733,827	4,170,744	(1,436,917)	(34.5)

Income statement

Operating income	Appendix	31-12-09 CHF 1000	31-12-08 CHF 1000	Change to 31-12-08 CHF 1000 in %	
Income and expenses relating to ordinary banking activities					
Net interest income					
Interest and discount income		32,973	90,570	(57,597)	(63.6)
Interest and dividend income from securities held for trading purposes		15,782	52,372	(36,590)	(69.9)
Interest and dividend income from financial investments		13,815	8,957	4,858	54.2
Interest expense		6,249	41,579	(35,330)	(85.0)
Subtotal net interest income		56,321	110,320	(53,999)	(48.9)
Net fee and commission income					
Credit-related fees and commissions		563	447	116	26.0
Commission income from securities and investment business	26	326,380	362,013	(35,633)	(9.8)
Other fee and commission income		53,567	43,555	10,012	23.0
Fee and commission expense		59,844	81,328	(21,484)	(26.4)
Subtotal net fee and commission income		320,665	324,687	(4,022)	(1.2)
Net income from trading operations	27	148,525	96,671	51,854	53.6
Other income from ordinary activities					
Income from sale of financial assets		4,766	(19,162)	23,928	(124.9)
Sundry ordinary income		234		234	
Sundry ordinary expenses		3,514	29,725	(26,211)	(88.2)
Subtotal other income from ordinary activities		1,486	(48,888)	50,374	(103.0)
Operating expense					
Personnel expense	28	284,810	200,770	84,040	41.9
Other operating expense	29	121,901	136,738	(14,837)	(10.9)
Subtotal operating expense		406,711	337,508	69,203	20.5
Net operating income		120,286	145,282	(24,996)	(17.2)
Net profit					
Net operating income					
		120,286	145,282	(24,996)	(17.2)
Depreciation, write-offs on non-current assets		49,868	41,573	8,295	20.0
Value adjustments, provisions and losses		11,994	9,191	2,803	30.5
Profit before extraordinary items and taxes		58,424	94,518	(36,094)	(38.2)
Extraordinary income	30	15,903	2,984	12,919	432.9
Extraordinary expenses		17		17	
Taxes		10,944	15,644	(4,700)	(30.0)
Net profit		63,366	81,857	(18,491)	(22.6)
Distribution of profit					
Net profit					
		63,366	81,857	(18,491)	(22.6)
Profit carried forward		92,569	74,461	18,108	24.3
Disposable profit		155,935	156,319	(384)	(0.2)
Distribution of profit					
Dividend payment		59,600	63,750	(4,150)	(6.5)
Profit carried forward		96,335	92,569	3,766	4.1

Cash flow statement

Cash flow statement	31-12-09 Source of funds CHF mns	Application of funds CHF mns	31-12-08 Source of funds CHF mns	Application of funds CHF mns
Cash flow from operations (internal financing)				
Net profit	63.4		81.9	
Depreciation, write-offs on non-current assets	49.9		41.6	
Value adjustments and provisions		4.4	1.0	
Income from sale of financial investments		4.8	19.2	
Income from revaluation of financial assets	3.5		29.7	
Accrued income and prepaid expenses		61.5	2.1	
Accrued expenses and deferred income	63.9			94.9
Payments from annual profit of previous year		73.0		120.0
Balance	180.7	143.7	175.5	214.9
Cash flow from equity transactions				
Shareholders' grant			52.0	
Balance	0.0	0.0	52.0	0.0
Cash flow from transactions in non-current assets				
Participations	11.1			
Buildings		0.1		12.1
Other tangible non-current assets		3.6		10.4
Tangible assets in finance lease				4.4
Other assets		31.8		54.8
Balance	11.1	35.5		81.7
Cash flow from banking activities				
Medium- and long-term business (> 1 year)				
Due to banks		15.6		
Due to customers		12.1	10.7	
Other liabilities		594.3		524.3
Due from banks	15.7			2.2
Due from customers		27.0		17.1
Financial investments		292.2	233.8	205.6
Other assets	764.2		415.7	
Short-term business				
Money market liabilities	1.9			2.8
Due to banks	1,179.5			1,249.1
Due to customers	381.8		2,085.6	
Issued products and short positions in securities	25.2			940.9
Money market claims	5.4		0.0	
Due from banks		525.8	148.4	
Due from customers		358.6		67.5
Securities and precious metals held for trading purposes		214.0	1,469.0	
Liquidity				
Liquid assets		346.7		1,284.6
Balance	2,373.7	2,386.3	4,363.2	4,294.1
Total source of funds/total application of funds	2,565.5	2,565.5	4,590.7	4,590.7

Areas of activity

Bank Vontobel AG is offering top-quality financial services to clients around the world based on Swiss private banking tradition.

Private Banking

Private banking comprises portfolio management services for private clients, investment advisory services, custodian services, integrated financial services for legal, inheritance and tax issues as well as corporate consolidation services.

Investment Banking

Investment banking focuses on the derivatives and structured products business, securities and foreign exchange trading, institutional sales and research, corporate finance, services for external asset managers and transaction banking.

Asset Management

The Asset Management business unit specializes in active asset management and is positioned as a multi-boutique provider. Its core competencies include targeted asset allocation, stock selection and multi-manager approaches. Its products are distributed through wholesale channels and directly to institutional clients. They are also sold by Vontobel's cooperation partners. Vontobel supplies Raiffeisen Switzerland with comprehensive investment services as part of their long-term cooperation.

Income structure

Net fee and commission income represents the Bank's principal source of income, contributing 61% of operating income before other ordinary income. Trading income accounted for 28% and net interest income for 11% of operating income before other ordinary income.

Number of employees

Expressed in terms of full-time positions, the Bank employed 1'033 members of staff at the end of 2009 (previous year: 917).

Outsourcing

In the area of IT, Bank Vontobel AG outsourced the connection to the Interbank providers (SIC, SWIFT, SECOM) to Biveroni Bartschelet Partners AG (bbp), according to the definition in the Swiss Financial Market Supervisory Authority Circular 08/7 "Outsourcing".

Risk policy

A conscious and prudent approach to risk is a prerequisite for the sustained, long-term success of the Vontobel Group as an internationally-oriented Swiss banking group specializing in wealth and asset management and investment banking. The assumption of risk is an inherent part of the activities of the three business units Private Banking, Investment Banking and Asset Management.

The Vontobel Group's risk policy defines the relevant risk categories and the corresponding risk profile, as well as the powers of authorization, organizational structure, methods and processes relating to the management and control of risks. The appropriateness of the risk policy is reviewed at least once annually by the Board of Directors. The Risk Management and Risk Control units are responsible for managing and controlling the risks with the utmost care. The Vontobel Group is managed strictly according to functional criteria. This is also the case at Bank Vontobel AG, which is 100% owned by Vontobel Holding AG. Consequently, the risk management and risk controls of Bank Vontobel AG form part of the Group-wide processes and methods. They are explained in detail in the Vontobel Group's Annual Report (pages 79 to 94).

Market risk

General information

Market risk refers to the risk of losses due to adverse changes in market prices related, for example, to interest rates, foreign exchange rates, stock prices, or commodities prices, and in the corresponding volatilities. Market risks are relevant in various areas, both within and outside Investment Banking. The management and control of market risks at Bank Vontobel AG is performed on the basis of the functional organization, in accordance with the processes and methods defined at Group level.

The major proportion of the risk positions **within Investment Banking** originate from its business with proprietary products such as warrants, certificates and structured products, as well as the hedging of these instruments. The Financial Products division of Investment Banking is responsible for these positions, as well as for foreign exchange and money market trading, the foreign exchange position of the entire Group and collateral trading (repo transactions and securities lending and borrowing transactions).

Market risks are limited and monitored using a multi-level system of limits. In addition to the Value at Risk limits and stress exposure limits defined at a global level and for each trading unit, this system defines a wide range of detailed sensitivity limits and volume limits in order to control and limit risks.

Market risk positions are also held **outside Investment Banking**. These financial investments consist of broadly diversified portfolios and non-consolidated holdings. Within the scope of asset allocation, the equity allocation is maintained at a consistently low level. To quantify and limit risk, the same measurement methods – i.e. Value at Risk and stress exposures – are used for these positions at an aggregate level as for the positions held by Investment Banking.

Further information on market risks at overall **balance sheet level** (interest rate risks and currency risks) can be found in section 2.3.

Market risks related to Investment Banking and other securities holdings

Value at Risk

The management and control of market risks for all the positions in Investment Banking as well as for securities holdings outside Investment Banking is based on Value at Risk and stress exposure measurements, in line with the general market standard. Detailed information on the methods as well as the resulting exposures at Group level can be found in the Vontobel Group's Annual Report (pages 80 to 82).

Stress Exposure

In addition to VaR limits, stress exposure limits are also defined, and the relevant stress tests are conducted on a daily basis.

Market risks related to the balance sheet structure

The Treasury division is responsible for managing the balance sheet structure and capital. Interest rate risks and currency risks are monitored and limited as part of the Group's asset and liability management (ALM) activities. Treasury is also responsible for securing refinancing and monitoring liquidity risk on a continuous basis

Interest rate risks

Interest rate and currency risks arise in balance sheet management through differing interest commitments and foreign currencies on the asset and liability side of the balance sheet and of off-balance sheet items. These risks are managed and monitored on an aggregate basis at Group level (see the Vontobel Group's Annual Report, pages 83 to 86).

Currency risk

Like interest rate risks, currency risks resulting from trading and the balance sheet structure are managed and monitored on an aggregate basis at Group level (see the Vontobel Group's Annual Report, page 86). The overall market risks related to currency incongruities are very low.

Liquidity risk and refinancing

Liquidity risk refers to the risk of being unable to cover short-term funding needs at any time (impossibility of substituting or renewing deposits, outflows of funds due to drawing on lending commitments or margin requirements, etc.). By diversifying the sources of refinancing and through access to the repo market, cash and cash equivalents can rapidly be made available on a secured basis if required. Cash and cash equivalents are monitored and assured on a daily basis. The continuous monitoring of the volume and quality of available collateral also ensures that the Vontobel Group always has adequate refinancing capabilities. In the event of an unexpected tightening of liquidity, the Group can also access a portfolio of positions that retain their value and can easily be liquidated.

Credit risk

General information

Credit risk concerns the risk of losses should a counterparty fail to honour its contractual obligations. In the case of the Vontobel Group, credit risk comprises:

- Default risks from lending against collateral
- Default risks within the scope of business transactions associated with credit risks, for example OTC derivative transactions, money market transactions, securities lending and borrowing
- Default risks from bond positions (issuer risk)
- As well as default risks related to the processing of transactions

The Vontobel Group is not active in the commercial lending business.

Like the other risk categories, credit risks and counterparty risks are managed and monitored at Group level on the basis of the functional organization. Detailed information on the corresponding processes and methods, as well as the aggregate exposures, can be found in the Vontobel Group's Annual Report (pages 87 to 92).

Reduction of credit risk

The reduction of credit risk using securities as easily realizable collateral is of key importance in the area of lending against collateral and in the case of OTC derivatives, as well as in repo transactions and securities lending and borrowing transactions. To reduce the credit risk arising from OTC derivatives and securities lending, these types of transactions are concluded almost exclusively on the basis of collateralized netting agreements.

The daily analysis and comparison of credit exposures and the corresponding collateral is a core aspect of the management and monitoring of credit risks. As part of this process, conservative add-on factors are applied to the credit exposures and conservative discount factors ("haircuts") are applied to the collateral in accordance with the "comprehensive approach" prescribed in the capital adequacy requirements of the Basel Committee on Banking Supervision (Basel II). The add-on and discount factors are determined according to the type of instrument, rating, term to maturity, liquidity and tradability.

System of limits

Gross and net exposures in the business with private clients and gross and net exposures to professional clients and institutional counterparties are limited using a **differentiated system of limits**.

In the **business with private clients and institutional investment clients**, limits on blanket credit lines are set for each client. These limits cover all the exposures assumed in respect of each client. These exposures (including the risk add-ons determined by the type of exposure) must essentially be covered by the collateral value of the collateral (securities after risk discounts). Exposures that are only secured from a market value perspective but not after the application of collateral add-ons or discounts, or client exposures that are secured by collateral that is not recognized according to the guidelines of the Basel Committee on Banking Supervision, are only assumed in exceptional cases in respect of these clients. In cases where the exposures are covered by market values but not by collateral values (i. e. after taking account of risk discounts), a default process is initiated with the aim of restoring cover through the reduction of the exposure or the provision of additional collateral.

As of 31-12-09, gross exposures to private clients and institutional investment clients totaled CHF 849.5 mn (31-12-08: CHF 990.9 mn), of which CHF 804.8 mn (31-12-08: CHF 947.3 mn) were secured by recognized financial collateral (after risk discounts) and CHF 44.7 mn (31-12-08: CHF 43.6 mn) were not secured by recognized financial collateral.

Exposures to **professional counterparties** are monitored and limited using a differentiated system of limits for the individual counterparty categories and settlement periods. Settlement risks are also reduced through the use of the Continuous Linked Settlement (CLS) system when conducting foreign currency transactions. Vontobel is connected to the CLS system as a third party.

Operational risks

Definition of operational risks

Operational risks are defined as the risk of losses resulting from the inadequacy or failure of internal processes, people and systems or from external events. The possibility that an operational risk event could occur is implicit in every business activity.

Classification of operational risks

Based on the parameters that are of relevance to the Vontobel Group when determining risk, a combination of two risk dimensions – probability (frequency) and the magnitude of the loss event (impact) – are used to distinguish between risks. The impact of the loss event is expressed in directly quantifiable terms (profit/loss; opportunity costs) as well as in (external) terms that are difficult to quantify (e. g. reputation, internal absorption of resources, external investigations and proceedings, etc.). The risks have been classified as follows, based on the various possible combinations of these two risk dimensions:

Low Operational Risk

– **Low Impact/Low Frequency:** Loss events that rarely occur and have a low loss potential.

Medium Operational Risk

– **Low Frequency/High Impact:** Loss events that rarely occur but have a high loss potential. For example, a loss event could lead to the breakdown of one or more business-critical process entities and thus render one or more core business processes and business functions impossible, resulting in a significant loss of income. This risk category has to be monitored very carefully due to the high loss potential involved.

– **High Frequency/Low Impact:** Loss events that have an insignificant loss potential when they occur individually and do not directly jeopardize core business processes and functions. In view of the frequency with which these loss events occur, this combination is nevertheless of relevance to the business and can lead to a significant loss of income. This risk category has to be monitored very carefully due to the high loss potential involved.

High Operational Risk

– **High Frequency/High Impact:** Loss events that have a high loss potential and occur very frequently. Their impact ranges from a very significant loss of income to the unavoidable discontinuation of business activities. These risks can have exceptionally far-reaching implications for the Group and are therefore of the utmost importance in terms of risk management.

Risk transformation

Operational risks that are classified as medium or high operational risks are assigned particular relevance at the Vontobel Group. Based on economic and risk-related considerations, the aim is to transform higher-level risks into lower-level risks. This process involves identifying and analyzing potential sources and transmitters of risk and planning measures to reduce the frequency with which the loss events occur and/or their impact. The following strategies are applied in this context:

- Risk prevention: Selective approach to business activities to prevent risk.
- Risk reduction: Reduction of risk through improvements in processes, systems and controls.
- Risk transfer: Transfer of risks to third parties through actuarial contractual obligations or sourcing

Concept for the identification, analysis and measurement of operational risks

In order to identify and limit operational risks, appropriate measures such as internal control systems as well as the selection, training and supervision of employees are implemented within the individual units. In addition, an operational risk management concept is implemented at an aggregate level. This concept is geared towards the characteristics of operational risks and takes account of three different dimensions: a qualitative dimension, a quantitative dimension and a process-related (causal) dimension. It is, however, only possible to accurately evaluate current operational risks through the integrated examination of these three dimensions:

- **Qualitative dimension:** in this dimension, parameters that are difficult or impossible to quantify are taken into account in the Key Risk Indicator (KRI) Study. These subjective estimated values are obtained through various methods of data collection – particularly risk assessment workshops and surveys of experts – which are based on an industry-wide method that is recognized from a regulatory perspective. Subjective expert opinions are considered on a consolidated basis with the aim of achieving an objective risk estimate. Potential weak points are thus identified and analyzed and suitable countermeasures are planned.
- **Quantitative dimension:** within the context of this dimension, all of the operational risk variables that occur in the company or have the potential to occur are recorded in full on the basis of numerical values, processed and reported at the appropriate level. The aim is to create transparency and expertise with regard to the company-wide operational risk situation and the active management of risk.
- **Process-related (causal) dimension:** the identification of operational risks focuses on valuecreating core business processes (services/product development/trading) within the company. Using this framework, the processes are prioritized according to their creation of value as well as on the basis of potential direct/indirect losses. In addition, their sub-processes and process entities are analysed for potential areas of vulnerability. Here, all process entities (people/applications/infrastructures) are regarded as possible bearers of risk, analysed in detail and assigned corresponding risk attributes such as turnover rates, incorrect entries, server downtimes (see quantitative dimension).

Adequacy of internal control systems (ICS)

The management and control of all risks is essentially performed using a holistic approach referred to as the Internal Control System (ICS). In accordance with the FINMA circular 08/24 “Supervision and Internal Control at Banks”, as well as the provisions governing control processes during the production of financial statements according to the Swiss Code of Obligations, existing control processes are regularly reviewed and further optimized. As well as ensuring compliance with legal and regulatory requirements, the focus is on ensuring the effectiveness, efficiency and reliability of business processes as well as the adequacy of financial flows and financial information.

Accounting principles

General approach

The annual financial statements of Bank Vontobel AG were drawn up in compliance with the Guidelines of the Swiss Financial Market Supervisory Authority (FINMA-Circ. 08/2), the Swiss Code of Obligations and Articles of Association. The accounting year ends on 31 December.

Recognition of transactions

Purchases and sales of financial assets are recorded on the trade date in the balance sheet.

Foreign currency translation

Foreign currency transactions are recorded at the rate of exchange on the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Profit and losses arising from exchange differences in foreign currency positions are recognized in trading income.

Exchange rates in CHF

	Balance sheet rates as of 31-12-09	Balance sheet rates as of 31-12-08
USD	1.03375	1.06435
JPY	1.11040	1.17145
EUR	1.48315	1.47950
GBP	1.66935	1.53030

Accounting and valuation principles

Money market claims

These are recognized at market prices on the balance sheet date.

Liquid assets, receivables due from banks and clients as well as borrowed funds

These are carried in the balance sheet at their nominal value. Specific valuation adjustments are made for identifiable risks of loan losses.

Determining fair value

If a financial instrument is traded in an active market, its fair value is based on the listed market prices or the prices quoted by traders. Otherwise, the fair value is determined on the basis of valuation models or other generally accepted valuation methods.

The appropriateness of the valuation of financial instruments that are not traded in an active market is ensured through the application of clearly defined methods and processes as well as independent controls. The control processes comprise the analysis and approval of new instruments, the regular analysis of risks as well as gains and losses, the verification of prices and the examination of the models on which the estimates of the fair value of financial instruments are based. These controls are conducted by units that possess the relevant specialist knowledge and operate independently from the trading and investment functions.

Securities and precious metals held for trading purposes

These are valued at fair value. Realized and unrealized gains and losses are recorded under trading income, and interest and dividend income is recorded under net interest income.

Issued products and short positions in securities

Products issued by the bank, as well as other liabilities from trading activities (short selling), are reported in this item. In the case of products with an interest rate component issued by the bank, the interest rate component is valued according to the accrual method and the option component is valued according to the fair value method. The products without interest rate components issued by the bank, as well as other trading portfolio liabilities, are reported at fair value. Realized and unrealized gains and losses are recorded under «Trading income», and interest and dividend expense is recorded under «Net interest income».

Derivative financial instruments

Derivative instruments are stated at fair value and presented in the balance sheet as positive and negative replacement values. The Bank can offset positive and negative replacement values in the case of transactions with the same counterparty, provided that legally enforceable netting agreements are in effect. Realized and unrealized gains and losses are recognized in the item «Net income from trading operations». Net gain from a hedging transaction is recognized under the same position in the income statement as the corresponding position from the transaction being hedged. The effectiveness of hedging operations is assessed on a regular basis and the ineffective portion of hedging operations is recognized in trading income. The contract volumes are reported under off-balance sheet items.

Financial investments

Securities acquired without the intention of being held until maturity are stated at the lower of cost or market. The net balance of market-induced value adjustments is recognized in other ordinary income or, as the case may be, in other ordinary expense. When a financial investment is sold, the difference between the carrying value and the sale price is reported as «Income from sale of financial assets».

Securities lending and borrowing transactions

Own securities that have been lent continue to be reported as a trading position or financial investment as long as control over the securities has not been surrendered. Borrowed securities are not carried in the balance sheet as long as the control over the securities remains with the lender. The re-sale of securities received is recognized in the balance sheet and carried at market value as a trading portfolio liability.

In securities borrowing agreements, cash collateral provided is stated in the balance sheet as «Due from banks» or as «Due from customers» depending on the corresponding counterparty. In securities lending agreements, cash collateral received is stated in the balance sheet as «Due to banks» or «Other amounts due to customers» depending on the corresponding counterparty. Fees and interest from securities lending and borrowing operations are recognized as interest income and interest expense, respectively.

Repurchase and reverse-repurchase agreements

Repurchase and reverse-repurchase agreements are treated as secured financing agreements. Securities received within the scope of reverse-repurchase agreements and securities delivered within the scope of repurchase agreements are recognized on or removed from the balance sheet only if control over the contractual rights that comprise these securities has been transferred.

In reverse-repurchase agreements, cash collateral provided is stated in the balance sheet as «Due from banks» or as «Due from customers» depending on the corresponding counterparty. In repurchase agreements, the cash collateral received is stated in the balance sheet as «Due to banks» or «Other amounts due to customers» depending on the corresponding counterparty.

Interest income from reverse-repurchase agreements and interest expense from repurchase agreements is booked over the life of the corresponding agreements on an accrual basis.

Property, plant and equipment

Property, plant and equipment is sub-divided into real estate (bank buildings and leasehold improvements), software (purchased and internally developed, including software in development), other tangible fixed assets (furniture, information technology and telecommunications equipment) and acquired intangible assets (client relationships). The cost of acquisition or construction is capitalized if the Bank is likely to receive an economic benefit derived there from in the future and the costs can be identified as well as reliably projected. Depreciation is computed on a straight-line basis over the useful life period of 3 to 10 years, for bank buildings over the useful life period of a maximum of 50 years. Property, plant and equipment are tested for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the recoverable value, an impairment loss will be recognized.

Accruals and deferrals

Items in the income statement unrelated to the accounting period are accrued or deferred. Interest and commissions due from clients and banks that are more than 90 days in arrears are not credited until actually received.

Value adjustments and provisions

Based on the size and structure of the credit portfolio, as well as the Vontobel Group's policy of essentially only granting on a secured basis or to counterparties with very high creditworthiness, only specific allowances are made for credit losses. A loan is considered impaired when it is likely that the amount due according to the contractual terms cannot be entirely collected. If the debtor's total exposure exceeds the estimated realizable disposal value of the collateral and if the assessment of the debtor's creditworthiness does not justify such an unsecured portion, an allowance for credit loss in the corresponding amount is made in the income statement. The reasons for impairment are specific to the relevant counterparties or countries. Interest income on loans that are not overdue is accrued in the period incurred. As a rule, removal from the books occurs at the time when a legal title confirms the conclusion of the liquidation process. Provisions for other business risks are made to the extent operationally necessary. The general risks associated with banking activities are covered by precautionary provisions.

Accrual of earnings

Income from services rendered over a specific period of time is recorded on a pro rata basis for the duration of the service. This includes asset management fees and custody fees. Profit-based income is not recorded until all of the relevant criteria have been met. This type of income may, for example, be generated in the corporate finance business. Interest is accrued in the relevant period. Dividends are recorded when payment is received.

Income taxes

Current income taxes are calculated on the basis of the applicable tax laws and recognized as expense in the period in which the related profits are made. The tax effects of loss carryforwards are not taken into consideration.

Employee and management stock ownership plans

According to the bonus model of the Vontobel Group, employees of Bank Vontobel AG are offered an annual bonus as well as a performance-related future allocation of shares. Employees have the right and/or the obligation to draw part of their annual bonus in shares of Vontobel Holding AG instead of cash. The fair value of these shares at grant date is charged to personnel expense. Employees who elect to draw part of their annual bonus in shares are entitled to receive a further allocation of shares of Vontobel Holding AG after three years have lapsed depending on the performance of the business. The anticipated liability as of the end of the vesting period (estimated number of shares to be allocated multiplied by the fair value of the Vontobel Holding AG share as of the balance sheet date, less the present value of the anticipated dividends between the balance sheet date and the allocation date) for these so-called performance shares is accrued on a pro rata temporis basis. The change in this accrual is recorded in the personnel expense for the corresponding period.

Pension funds

If a pension fund has a shortfall according to Swiss GAAP FER 26, Bank Vontobel AG records a liability in the amount of the probable outflow of funds required to make up the shortfall. A pension fund surplus (incl. employer contribution reserves) is not capitalized as a future economic benefit.

Extraordinary income and expenses

Expenditure and income that is non-recurring or not related to ordinary operating activities is considered to be extraordinary. Infrequent but recurring events within the ordinary course of business do not qualify as extraordinary events.

Contingent liabilities, irrevocable commitments, uncalled liabilities to pay in capital on shares, confirmed credits

These are reported off the balance sheet at their nominal value.

Assets under management and net inflows/outflows of new money

Assets under management comprise all of the assets managed or held for investment purposes of private, corporate and institutional clients excluding borrowings. This basically includes all amounts due to clients on savings and deposit accounts, fixed-term and fiduciary deposits, and all valued assets. Assets that are deposited with third parties are included to the extent that they are managed by the Bank. Assets under management only include those assets on which the Bank generates considerably higher income than on assets that are held solely for custody purposes and the execution of transactions. These types of custody assets are reported separately. Assets that are counted more than once, i.e. in several categories of assets under management to be disclosed, are shown under double counts.

Net inflows or outflows of assets under management in the course of a specific period consist of the acquisition of new clients, the departure of clients as well as inflows and outflows of the assets of existing clients. This also includes borrowing and the repayment of loans. The calculation of the net inflow or outflow of new money is performed at the level «Total assets under management», i.e. before the elimination of double counts. Securities and currency-related changes in market value, interest income and dividends, fee charges as well as loan interests paid do not represent inflows or outflows.

Presentation of figures

The figures contained in the tables have been rounded. The total may therefore differ from the sum of the individual figures. An empty space means that the corresponding line item does not have any value. 0.0 means that the corresponding line item contains a value that amounts to 0.0 when rounded.

Depreciation period for software

Following the changeover to the Avaloq system, which was completed on 1 January 2009, the depreciation period for core IT systems was increased from a maximum of five years to a maximum of ten years due to their extended operating life. The change in the estimated useful life of core IT systems was applied prospectively from 1 January 2009. Other software will continue to be depreciated over a period of three to five years. The change in the maximum depreciation period does not have any significant impact on the bank's net profit.

Changes in accounting and valuation principles

Bank Vontobel AG benefits from an extended consolidation rebate pursuant to the FINMA circular 08/22 (capital adequacy disclosure by banks). Detailed information on capital adequacy can be found in the Annual Report of the Vontobel Group, pages 95 to 96.

Capital adequacy disclosure

There were no important events after the balance sheet date.

Important events after the balance sheet date

Integration of Banque Vontobel Genève SA, Geneva, into Bank Vontobel AG

In June 2009, Banque Vontobel Genève SA, formerly a subsidiary of Vontobel Holding AG, was retroactively integrated and merged into Bank Vontobel AG as of January 1, 2009.

The two tables below show the impact on the Bank's balance sheet as at 01-01-09 and on its income statement for the financial year 2008. The previous-year figures in this section of the annual report have not been restated.

Consolidated balance sheet as at 01-01-09

	Balance sheet Bank Vontobel AG 31-12-08 CHF 1000	Balance sheet Banque Vontobel Genève SA 31-12-08 CHF 1000	Intercompany Elimination CHF 1000	Consolidated balance sheet 01-01-09 CHF 1000
Assets				
Liquid assets	1,347,166	130,546		1,477,712
Money market claims		5,381		5,381
Due from banks	1,471,618	102,771	(41,573)	1,532,816
Due from customers	933,779	71,585		1,005,364
Securities and precious metals held for trading purposes	1,580,732			1,580,732
Financial investments	321,596	6,463		328,059
Participations		108		108
Property, plant and equipment	194,430	11,987		206,417
Accruals and deferrals	59,198	3,768	(1,823)	61,143
Other assets	1,180,498	1,038		1,181,536
Total assets	7,089,016	333,647	(43,396)	7,379,267
Liabilities				
Money market liabilities	583	380		963
Due to banks	732,700	35,070	(41,573)	726,197
Other amounts due to customers	3,525,414	226,789		3,752,203
Issued products and short positions in securities	970,748			970,748
Accruals and deferrals	143,697	10,725	(1,823)	152,599
Other liabilities	1,079,088	2,230		1,081,318
Value adjustments and provisions	137,822	17,765		155,587
Share capital	85,000	14,000		99,000
Statutory reserves	200,045	16,580		216,625
Other reserves	57,600			57,600
Profit carried forward	74,461	1		74,462
Net profit	81,857	10,107		91,964
Total liabilities	7,089,016	333,647	(43,396)	7,379,267

Key figures of consolidated income statement as at 31-12-08

	Income statement Bank Vontobel AG 31-12-08 CHF 1000	Income statement Banque Vontobel Genève SA 31-12-08 CHF 1000	Intercompany Elimination CHF 1000	Consolidated income statement 31-12-08 CHF 1000
Income Statement				
Total operating income	482,790	40,062	(1,678)	521,174
Net interest income	110,320	3,961		114,281
Net fee and commission income	324,687	26,295	4,019	355,001
Net income from trading operations	96,671	2,558		99,229
Other income from ordinary activities	(48,888)	7,248	(5,697)	(47,337)
Operating expense	337,508	25,200	(1,678)	361,030
Net operating income	145,282	14,862		160,144
Depreciation, write-offs, value-adjustments, provisions and losses	50,764	711		51,475
Net profit	81,857	10,107		91,964

Integration of Commerzbank (Schweiz) AG, Zurich, into Bank Vontobel AG

On 1 October 2009, Commerzbank (Schweiz) AG was acquired by Vontobel Holding AG. In December 2009, the company was retroactively integrated and merged into Bank Vontobel AG. Before the merger with Bank Vontobel AG, Commerzbank (Schweiz AG) sold its subsidiary Commerzbank (Schweiz) AG Private Banking, Vienna, to Vontobel Holding AG.

Commerzbank (Schweiz) AG contributed CHF 10.6 mn to total operating income, CHF 3.6 mn to net operating income and CHF 2.4 mn to net profit as of 31 December 2009. The following table shows the impact on the Bank's balance sheet as at October 1, 2009.

	Balance Bank Vontobel AG 30-09-09 CHF 1000	Balance Commerz- bank (Schweiz) AG 30-09-09 CHF 1000	Consolidated balance 01-10-09 CHF 1000
Consolidated balance as per 01-10-09			
Assets			
Liquid assets	249,576	66,087	315,663
Money market claims	2		2
Due from banks	2,784,255	240,831	3,025,086
Due from customers	1,495,959	112,431	1,608,390
Securities and precious metals held for trading purposes	1,504,982		1,504,982
Financial investments	642,782	121,499	764,281
Participations		11,010	11,010
Property, plant and equipment	193,676	4,959	198,635
Accruals and deferrals	116,392	11,576	127,968
Other assets	497,686	16,248	513,934
Total assets	7,485,310	584,641	8,069,951
Liabilities			
Money market liabilities	431		431
Due to banks	1,183,184	44,468	1,227,652
Other amounts due to customers	3,800,496	435,061	4,235,557
Issued products and short positions in securities	1,115,131		1,115,131
Accruals and deferrals	154,544	6,510	161,054
Other liabilities	533,502	20,060	553,562
Value adjustments and provisions	162,219	36	162,255
Share capital	99,000	50,000	149,000
Statutory reserves	217,485	25,000	242,485
Other reserves	57,600		57,600
Profit carried forward	92,569	26	92,595
Net profit	69,148	3,480	72,628
Total liabilities	7,485,310	584,641	8,069,951

Details on balance sheet transactions

1 Collateral coverage	Secured by mortgage CHF mns	Other collateral CHF mns	Unsecured CHF mns	Total CHF mns
Loans				
Due from customers		1,210.1	293.4	1,503.4
Total loans in year under review		1,210.1	293.4	1,503.4
in previous year		752.2	181.6	933.8
Off-balance sheet				
Contingent liabilities		273.3	6.0	279.3
Irrevocable commitments			11.2	11.2
Total off-balance sheet in year under review		273.3	17.2	290.5
in previous year		80.5	22.1	102.6
Impaired loans				
	Gross amount CHF mns	Estimated value of collateral CHF mns	Net amount CHF mns	Individual value adjustments CHF mns
In year under review	8.0		8.0	8.0
In previous year	3.3	1.1	2.3	2.3
2 Securities and precious metals held for trading purposes				
	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	31-12-08 in %
Debt instruments	820.7	703.6	117.1	16.6
listed	687.5	579.0	108.5	18.7
unlisted	133.2	124.7	8.5	6.8
Equities incl. investment funds	949.1	861.3	87.8	10.2
Precious metals	24.9	15.8	9.1	57.6
Total securities and precious metals held for trading purposes	1,794.7	1,580.7	214.0	13.5
of which repo-eligible securities in accordance with liquidity requirements	456.1	308.3	147.8	47.9
3 Issued products and short positions in securities				
Certificates issued	281.7	289.9	(8.2)	(2.8)
Structured products issued	176.1	112.0	64.1	57.2
Short positions in other securities	538.2	568.8	(30.6)	(5.4)
Total issued products and short positions in securities	995.9	970.7	25.2	2.6

4 Financial investments	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	in %
Debt instruments	642.3	218.3	424.0	194.2
of which valued at lower of cost or market	642.3	218.3	424.0	194.2
market value	648.8	221.3	427.5	193.2
Equity instruments incl. investment funds	100.7	103.3	(2.6)	(2.5)
market value	110.5	107.3	3.2	3.0
Total financial investments	743.0	321.6	421.4	131.0
market value	759.3	328.6	430.7	131.1
of which repo-eligible securities in accordance with liquidity requirements	295.0	130.5	164.5	126.1

5 Movement of fixed assets	Bank- buildings CHF mns	Other buildings CHF mns	Other tangible non-current assets CHF mns	Tangible asset in finance lease CHF mns	Other assets CHF mns	Total tangible assets CHF mns
Cost price						
Balance as at 01-01-09 ¹	15.0	30.5	34.8	13.1	202.9	296.3
Investments		0.1	3.6		31.8	35.5
Increase due to the merger with Commerzabnk (Schweiz) AG		2.1	1.8		1.1	5.0
Disposals and charge-offs		0.4	9.1		12.0	21.5
Balance as at 31-12-09	15.0	32.3	31.1	13.1	223.8	315.3
Cumulative depreciation						
Balance as at 01-01-09 ¹	3.3	4.2	15.7	6.1	60.6	89.9
Depreciation	0.5	5.1	8.9	4.7	30.7	49.9
Disposals and charge-offs		0.4	9.1		12.0	21.5
Balance as at 31-12-09	3.8	8.9	15.5	10.8	79.3	118.3
Net carrying values 01-01-09 ¹	11.7	26.3	19.1	7.0	142.3	206.4
Net carrying values as at 31-12-09	11.2	23.4	15.6	2.3	144.5	197.0

¹ Increase of position due to the merger with Banque Vontobel Genève SA.

	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	in %
Fire insurance value of real estate	14.5			
Fire insurance value of other fixed assets	97.7	80.6	17.1	21.2
Liabilities: future lease rates from operational leasing	85.6	63.4	22.2	35.0

6 Other assets

Positive replacement values from trading activities	426.0	1,174.9	(748.9)	(63.7)
Indirect taxes	3.5	2.1	1.4	66.7
Miscellaneous other assets	4.1	3.5	0.6	17.1
Total other assets	433.6	1,180.5	(746.9)	(63.3)

7 Pledged or assigned assets and assets under reservation of ownership, excluding securities lending and borrowing operations and securities repurchase and reverse repurchase transactions

	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	in %
Book value of the pledged and assigned assets	150.1	544.6	(394.5)	(72.4)
Liabilities actually incurred ¹	425.5	969.1	(543.6)	(56.1)

¹ Securities lent by third parties in the amount of CHF 215.2 mns (previous year CHF 515.8 mns) were also used to cover the effective liabilities

8 Securities lending and borrowing operations and securities repurchase and reverse repurchase transactions

Book value of cash collateral in securities borrowing or in reverse repurchase transactions	300.0	145.0	155.0	106.9
Book value of the securities lent as collateral in securities lending or given as collateral in securities borrowing transactions and own securities transferred in repurchase transactions	123.2	11.0	112.2	
for which the right to resell or repledge as collateral has been granted without restriction	123.2	11.0	112.2	
Fair value of the securities received as collateral or borrowed in securities lending and borrowing operations or received through reverse repurchase transactions for which the right to resell or repledge as collateral has been granted without restriction	2,284.2	3,265.5	(981.3)	(30.1)
Fair value of securities resold or repledged as collateral or used in relation with securities lending and borrowing operations	842.0	1,580.7	(738.7)	(46.7)

9 Other liabilities

Negative replacement values	486.5	1,026.6	(540.1)	(52.6)
Indirect taxes	12.1	15.5	(3.4)	(21.9)
Miscellaneous other liabilities	8.5	37.0	(28.5)	(77.0)
Total other liabilities	507.1	1,079.1	(572.0)	(53.0)

10 Value adjustments and provisions and reserves for general banking risks	Book value ¹ 01-01-09 CHF mns	Provision applied in accordance with originally specified purpose CHF mns	Change in the specified purpose of provisions (reclassified) CHF mns	Recoveries doubtful interest, currency translation differences CHF mns	New provisions charged to income CHF mns	Provisions released to P&L CHF mns	Book value 31-12-09 CHF mns
Value adjustments and provisions							
for default risks (credit and country risks)	2.3			0.3	5.6	0.1	8.0
for other business risk	4.7	0.8			4.0		7.9
Rückstellungen für Steuern	0.5	0.5			2.6		2.6
Other provisions	148.2				0.0	15.4	132.8
Total value adjustments and provisions	155.7	1.3		0.3	12.2	15.5	151.3
Less: value adjustments deducted directly from assets							
Total value adjustments and provisions as per balance sheet	155.7	1.3		0.3	12.2	15.5	151.3

¹ Increase of position "Other provisions" by CHF 17.8 mn due to the merger with Banque Vontobel Genève SA.

11 Share capital	31-12-09 Total par value CHF mns	Number of shares	Capital ranking for dividend CHF mns	31-12-08 Total par value CHF mns	Number of shares	Capital ranking for dividend CHF mns
Share capital – nominal shares	149.0	149,000	149.0			
Share capital – bearer shares				85.0	85,000	85.0
Total share capital	149.0	149,000	149.0	85.0	85,000	85.0
Authorized share capital		none			none	
of which capital increases completed						
Conditional share capital		none			none	
of which capital increases completed						

Major shareholders and groups of shareholders with pooled voting rights by Bank Vontobel AG	31-12-09 Nominal CHF mns	Share as %	31-12-08 I Nominal CHF mns	Share as %
With voting rights in share capital ranking for dividend Vontobel Holding AG, Zurich	149.0	100.0	85.0	100.0
Total voting rights in share capital ranking for dividends	149.0	100.0	85.0	100.0

Major shareholders and groups of shareholders with pooled voting rights by Vontobel Holding AG, Zurich

	31-12-09		31-12-08	
	Nominal CHF mns	Share as %	Nominal CHF mns	Share as %
With voting rights on share capital of CHF 65 mn				
Dr Hans Vontobel	11.8	18.2	11.7	18.0
Ruth de la Cour-Vontobel	3.6	5.5	3.6	5.5
Vontrust AG (Holding of the Vontobel family-shareholders)	8.1	12.5	8.1	12.5
Other shares of family shareholders	0.3	0.5	0.3	0.5
Vontobel Foundation	7.1	10.9	7.1	10.9
Pellegrinus Holding AG (public utility foundation Corvus) ¹	2.7	4.2	2.7	4.2
Vontobel Holding AG including subsidiaries (own shares without voting rights) ²	1.3	2.0	1.9	2.9
Executive members	0.6	0.9	0.6	0.9
Raiffeisen Switzerland	8.1	12.5	8.1	12.5
Total voting rights on share capital	43.6	67.2	44.1	67.9
of which members of the pool (with and without voting rights)	35.5	54.6	36.0	55.4
of which members of the pool (with voting rights)	34.2	52.6	34.1	52.5
of which pooled shares	26.0	40.0	26.0	40.0

1 Usufruct incl. voting right by Pellegrinus Holding AG, ownership by Vontobel Foundation

2 Excl. Option rights amounting to 0.1% (previous year 0.3%) of shares outstanding

12 Statement of shareholders' equity

	31-12-09 CHF mns	31-12-08 CHF mns
Paid-in share capital	85.0	75.0
Statutory reserves	200.0	129.3
Other reserves	57.6	57.6
Disposable profit	156.3	201.5
Total shareholders' equity at beginning of year under review (before distribution of profit)	498.9	463.4
– Dividend from annual profit of Bank Vontobel AG from previous year	63.8	120.0
– Dividend from annual profit of Banque Vontobel Genève SA from previous year	9.2	
+ Integration of Vontobel Asset Management AG		21.6
+ Integration of Banque Vontobel Genève SA	40.7	
+ Integration of Commerzbank (Schweiz) AG	78.5	
+ Share holders grant		52.0
+ Profit for the year under review	63.4	81.9
Total shareholders' equity at end of year under review (before distribution of profit)	608.5	498.9
of which		
Share capital	149.0	85.0
Statutory reserves	246.0	200.0
Other reserves	57.6	57.6
Disposable profit	155.9	156.3

13 Employee benefit schemes	31-12-00 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	%
Total liabilities	20.8	14.0	6.8	48.6

14 Information on pension plans

Bank Vontobel AG maintains five pension institutions that provide the Bank's employees and the employees of affiliated companies with benefits in the event of retirement, disability or death. These institutions provide the minimum benefits stipulated by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG) as well as additional benefits over and above the obligatory benefits. The plan assets are managed by companies belonging to Vontobel Group.

Employer contribution reserves (ECR)	31-12-09					2009 Result from ECR in personnel expense CHF mns
	Nominal value CHF mns	Waiver of usage CHF mns	Other valuation adjustments CHF mns	Discounting effects CHF mns	Balance sheet book value CHF mns	
Patronage funds and pension plans						
Previous year						
Pension plans	6.2					
Previous year	6.2					
Total	6.2					
Total previous year	6.2					

Economic benefit or economic liability	Surplus/ shortfall CHF mns	31-12-09	31-12-08	Change versus previous year CHF mns	Contributions accrued for the period CHF mns	2009	2008
		CHF mns	Economic benefit or economic liability CHF mns			CHF mns	Pension cost CHF mns
Patronage funds and pension plans	35.8						
Pension plans without a surplus/shortfall		(2.6)		2.6	17.0	19.6	
Pension plans with a surplus							
Pension plans with a shortfall							14.2
Pension schemes without their own assets							
Total	35.8	(2.6)		2.6	17.0	19.6	14.2

The Bank does not capitalize the future economic benefit (incl. employer contribution reserves) in accordance with FINMA-RS 08/2.

15 Receivables from and liabilities to related companies and significant shareholders and governing body loans

	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Receivables from related companies	348.0	941.7	(593.7)	(63.0)
Liabilities to related companies	1,141.2	1,368.6	(227.4)	(16.6)

As of 31-12-09 and 31-12-08 no loans to governing bodies have been granted

Most of amounts due to and from associated companies result from the issue of structured products of the affiliate in Dubai and the management of client accounts of the Private Banking operations in Dubai. Transactions are settled at market terms.

Further information on related parties

The due from qualified participants of approximately CHF 480.0 mns comprises fixed advances to Vontobel Holding AG, which were concluded in accordance with market conditions.

Cooperation agreement between Vontobel Group and Raiffeisen Switzerland

The ongoing cooperation between Vontobel Group and Raiffeisen Switzerland (former Swiss Raiffeisen Group) initiated in 1994 was broadened in 2004 and extended through to 2017 at 14 December 2009. In connection with the expansion of its investment management business, the Raiffeisen Group cooperates with Vontobel Group and offers Vontobel's investment-related services and selected third-party products at all of its banking locations in Switzerland. Vontobel develops and designs product and service solutions for Raiffeisen's investment customers in the fields of investment funds, standardized asset management solutions and structured products. Raiffeisen banks continue to undertake the marketing and client advisory activities as before. Vontobel advises and supports Raiffeisen's marketing organization. In addition, the Raiffeisen Group outsourced its securities trading and settlement as well as safekeeping activities to Vontobel in 2005. Additionally, Vontobel has made its trading infrastructure available to the central bank of the Raiffeisen Group. In October 2006, Vontobel Group as service provider assumed the custodian services for all Raiffeisen clients on behalf of the Raiffeisen Group.

To underpin the long-term nature of their partnership, Raiffeisen Group acquired a 12.5% stake in Vontobel Holding AG effective as of 8 December 2004 (refer to the information given in the Corporate Governance, page 35f. of the Vontobel Group's Annual Report). The requisite agreements implementing the mutual cooperation in the investment management and securities transactions and administration business were signed at the same time. The cooperation agreements took effect retroactively to 1 July 2004 and were prolonged at 14 December 2009 for an indefinite period, at minimum, however, until 30 June 2017. The earliest effective date of ordinary termination – in observance of a period of notice of 24 months – is 30 June 2017.

16 Maturity structure for current assets and liabilities

	Due						Total CHF mns
	On demand CHF mns	Subject to notice CHF mns	Within 3 months CHF mns	Within 3 to 12 months CHF mns	Within 1 to 5 years CHF mns	After 5 years CHF mns	
Current assets							
Liquid assets	1,890.4						1,890.4
Money market claims	0.0						0.0
Due from banks	1,735.9	98.5	408.1	37.3	4.0		2,283.8
Due from customers		418.1	818.1	173.0	81.7	12.6	1,503.4
Securities and precious metals held for trading purposes	1,794.7						1,794.7
Financial investments	100.7		15.5	67.7	504.6	54.5	743.0
Total current assets							
year under review	5,521.7	516.6	1,241.7	278.0	590.3	67.1	8,215.3
previous year	3,830.3	641.8	717.5	254.4	169.0	42.0	5,654.9
Liabilities							
Money market liabilities	2.9						2.9
Due to banks	1,853.4	64.5	15.0	1.7			1,934.6
Other due to customers	4,522.5		7.5	21.0		5.9	4,557.0
Issued products and short positions in securities	995.9						995.9
Total liabilities							
year under review	7,374.7	64.5	22.5	22.7	0.0	5.9	7,490.4
previous year	4,298.6	26.1	690.6	196.1	12.1	5.9	5,229.4

17 Breakdown of domestic and foreign assets and liabilities	31-12-09	Foreign	31-12-08	Foreign
	Domestic CHF mns	CHF mns	Domestic CHF mns	CHF mns
Assets				
Liquid assets	1,868.7	21.8	1,347.2	
Money market claims	0.0			
Due from banks	1,535.9	747.9	644.4	827.3
Due from customers	756.1	747.3	484.4	449.4
Securities and precious metals held for trading purposes	772.2	1,022.6	559.3	1,021.4
Financial investments	520.2	222.7	151.7	169.9
Property, plant and equipment	197.0		194.4	
Accruals and deferrals	54.0	80.2	39.8	19.4
Other assets	55.4	378.1	83.8	1,096.7
Total assets	5,759.5	3,220.6	3,504.9	3,584.1
Liabilities				
Money market liabilities	2.9		0.6	
Due to banks	1,504.1	430.5	358.1	374.6
Other amounts due to customers	1,849.9	2,707.0	2,113.0	1,412.4
Issued products and short positions in securities	536.9	459.0	569.8	400.9
Accruals and deferrals	164.9	58.0	138.2	5.5
Other liabilities	179.9	327.2	239.8	839.3
Value adjustments and provisions	151.3		137.8	
Share capital	149.0		85.0	
Statutory reserves	246.0		200.0	
Other reserves	57.6		57.6	
Profit carried forward	92.6		74.5	
Net profit	63.4		81.9	
Total liabilities	4,998.5	3,981.7	4,056.3	3,032.8

18 Breakdown of assets by country/region	31-12-09	Share	31-12-08	Share
	Absolute CHF mns	as %	Absolute CHF mns	as %
Europe	7,823.8	87.1	5,492.3	77.5
Switzerland	5,759.5	64.1	3,504.9	49.4
Germany	571.2	6.4	512.5	7.2
France	177.1	2.0	365.7	5.2
Netherlands	140.4	1.6	88.5	1.2
UK	634.2	7.1	370.6	5.2
Luxemburg, Belgium	197.7	2.2	324.8	4.6
Rest of Europe	343.7	3.8	325.3	4.6
US/Canada/Grand Cayman/Caribbean	571.8	6.4	532.7	7.5
South and Middle America	52.5	0.6	46.4	0.7
Africa/Middle East	440.5	4.9	945.5	13.3
Asia	64.4	0.7	59.9	0.8
Australia, Oceania	27.2	0.3	12.3	0.2
Total assets	8,980.2	100.0	7,089.0	100.0

19 Breakdown of assets and liabilities by currency	CHF CHF mns	USD CHF mns	EUR CHF mns	Other CHF mns	Total CHF mns
Assets					
Liquid assets	1,861.8	0.3	28.0	0.3	1,890.4
Money market claims	0.0				0.0
Due from banks	420.1	508.9	894.0	460.8	2,283.8
Due from customers	894.4	208.8	333.1	67.1	1,503.4
Securities and precious metals held for trading purposes	1,027.9	373.8	252.8	140.2	1,794.7
Financial investments	666.3	37.0	39.7	0.0	743.0
Property, plant and equipment	197.0				197.0
Accruals and deferrals	92.3	6.2	34.7	1.0	134.3
Other assets	221.7	37.6	164.0	10.4	433.6
Total assets reported in the balance sheet	5,381.5	1,172.6	1,746.3	679.8	8,980.2
Delivery claims arising from spot and forward exchange operations and currency options	337.8	1,107.0	1,133.8	695.3	3,273.9
Total assets	5,719.3	2,279.6	2,880.1	1,375.1	12,254.1
Liabilities					
Money market liabilities	2.3	0.5	0.1		2.9
Due to banks	1,601.3	122.3	131.2	79.8	1,934.6
Other due to customers	1,965.8	929.0	1,290.5	371.6	4,557.0
Issued products and short positions in securities	491.2	182.0	273.3	49.4	995.9
Accruals and deferrals	186.6	4.0	32.2	0.1	223.0
Other liabilities	321.7	43.0	136.8	5.6	507.1
Value adjustments and provisions	151.3				151.3
Share capital	149.0				149.0
Statutory reserves	246.0				246.0
Other reserves	57.6				57.6
Profit carried forward	92.6				92.6
Net profit	63.4				63.4
Total liabilities and shareholders' equity reported in the balance sheet	5,328.8	1,280.8	1,864.1	506.5	8,980.2
Delivery obligations arising from spot and forward exchange operations and currency options	503.7	986.4	1,053.0	830.1	3,373.2
Total liabilities	5,832.5	2,267.2	2,917.1	1,336.6	12,353.4
Net position per currency	(113.2)	12.4	(37.0)	38.5	(99.3)
Net position per currency previous year	(52.5)	76.2	(11.1)	6.5	19.2

Details on off-balance sheet transactions

20 Contingent liabilities	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	31-12-08 in %
Credit guarantees and similar instruments	267.1	89.8	177.3	197.4
Performance guarantees and similar instruments	6.4	2.2	4.2	190.9
Other contingent liabilities	5.8	4.7	1.1	23.4
Total contingent liabilities	279.3	96.7	182.6	188.8

21 Irrevocable commitments	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns	31-12-08 in %
Payment obligation to 'Einlagensicherung'	11.2	5.9	5.3	89.8
Total irrevocable commitments	11.2	5.9	5.3	89.8

22 Open derivative instruments	Trading instruments		
	Positive RV ¹ CHF mns	Negative RV ¹ CHF mns	Contract volume CHF mns
Debt instruments			
Swaps	147.1	159.7	11,205.8
Futures		0.0	228.7
Options (OTC)	0.4	0.4	157.4
Foreign currency/precious metals			
Forward contracts	37.0	31.5	2,832.5
Futures			107.4
Options (OTC)	17.1	24.8	1,005.1
Equities/indices			
Swaps	1.3	1.3	165.1
Futures			232.7
Options (OTC)	185.2	220.5	13,379.6
Options (exchange traded)	24.2	31.1	1,270.0
Credit derivatives			
Credit Default Swaps		3.1	70.3
Other			
Futures			29.3
Options (OTC)	13.7	14.2	209.8
Total before netting agreements year under review	426.0	486.5	30,893.7
Total before netting agreements previous year	1,174.8	1,026.6	28,591.9
Netting agreements year under review	(97.0)	(97.0)	
Netting agreements previous year	(309.3)	(309.3)	
Total after netting agreements year under review	329.0	389.6	
Total after netting agreements previous year	865.5	717.3	

1 Replacement values

23 Breakdown of fiduciary transactions	31-12-09 CHF mns	31-12-08 CHF mns	Change to 31-12-08 CHF mns in %	
Fiduciary investments at third-banks	2,709.7	4,170.7	(1,461.0)	(35.0)
Total fiduciary deposits	2,709.7	4,170.7	(1,461.0)	(35.0)
Fiduciary loans	24.1		24.1	
Total fiduciary loans	24.1		24.1	
Total fiduciary transactions	2,733.8	4,170.7	(1,436.9)	(34.5)

24 Client assets¹	31-12-09 CHF bns	31-12-08 CHF bns	Change to 31-12-08 CHF bns in %	
Assets with management mandate	29.8	28.2	1.6	5.7
Other client assets	26.3	20.2	6.1	30.2
Total client assets (incl. double counts)	56.1	48.4	7.7	15.9
of which double counts	2.7	1.6	1.1	68.8
Net inflow/(outflow) of assets	0.7	4.4	(3.7)	(84.1)

¹ Calculation in accordance with Table Q of the guidelines issued by the Swiss Financial Market Supervisory Authority concerning accounting standards for financial institutions (FINMA-RS 08/2, Rz 198a ff.) and Vontobel Group internal guidelines.

25 Custody assets¹	31-12-09 CHF bns	31-12-08 CHF bns	Change to 31-12-08 CHF bns in %	
Custody assets	40.0	36.1	3.9	10.8

¹ Assets held exclusively for transaction and custody purposes, in which the Vontobel Group restricts itself to custody and collection.

Details on income statement

26 Fee and commission income from securities and investment business	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Brokerage fees	113.7	130.7	(17.0)	(13.0)
Custody fees	52.8	53.5	(0.7)	(1.3)
Advisory and management fees	136.4	147.1	(10.7)	(7.3)
Underwriting fees	10.1	12.5	(2.4)	(19.2)
Coupon collection fees	1.3	1.6	(0.3)	(18.7)
Other commission income from securities and investment transactions	12.1	16.7	(4.6)	(27.5)
Total fee and commission income from securities and investment business	326.4	362.0	(35.6)	(9.8)

27 Net income from trading operations	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Securities	136.1	73.9	62.2	84.2
Forex, banknote and precious metals	12.4	22.8	(10.4)	(45.6)
Total net income from trading operations	148.5	96.7	51.8	53.6

28 Personnel expense	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Salaries and bonuses	232.8	162.3	70.5	43.4
Employee benefits	19.2	11.3	7.9	69.9
Other personnel expense	32.8	27.2	5.6	20.6
Total personnel expense	284.8	200.8	84.0	41.8

29 General expense	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Occupancy expense	23.4	24.1	(0.7)	(2.9)
IT, telecommunications, machines, furniture, vehicles and other equipment	56.4	55.5	0.9	1.6
Travel and representation, public relations, marketing, consulting and audit fees	31.3	43.5	(12.2)	(28.0)
Other general expense	10.8	13.6	(2.8)	(20.6)
Total general expense	121.9	136.7	(14.8)	(10.8)

30 Extraordinary income	31-12-09	31-12-08	Change to 31-12-08	
	CHF mns	CHF mns	CHF mns	%
Release of provisions	0.1	2.3	(2.2)	(95.7)
Dissolution of hidden reserves ¹	15.4		15.4	
Other extraordinary income	0.4	0.7	(0.3)	(42.9)
Total extraordinary income	15.9	3.0	12.9	430.0

1 Release of already taxed hidden reserves from the integrated Banque Vontobel Genève SA in the amount of CHF 15.4 mn.

The Board of Directors of Bank Vontobel AG consists of the following persons as of 1 January 2010:

Name	Function
Dr Urs Widmer	Chairman
Dr Wolfhard Graetz	Deputy Chairman
Prof. Dr Ann-Kristin Achleitner	Member
Bruno Basler	Member
Dr Philippe Cottier	Member
Peter Quadri	Member
Dr Frank Schnewlin	Member
Dr Pierin Vincenz	Member

Resignations in 2009:

Heinz Roth	Member (until 28-04-09)
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The majority of the members of the Board of Directors of Vontobel Holding AG meet the independence criteria prescribed in the FINMA Circular 08/24 "Supervision and Internal Control at Banks", mn 20–24. They are: Prof. Dr Ann-Kristin Achleitner, Dr Wolfhard Graetz, Peter Quadri, Dr Frank Schnewlin and Dr Urs Widmer.

Executive management comprises the following persons as of 1 January 2010:

Name	Function
Herbert J. Scheidt	CEO
Dr Martin Sieg Castagnola	CFO
Peter Fanconi	Member (since 01-03-09)
Felix Lenhard	Member (since 01-01-10)
Dr Zeno Staub	Member
Roger Studer	Member

Resignations in 2009:

Walter Thoma	Member (until 28-02-09)
Peter Gubler	Member (until 31-12-09)

Serving in an executive function as a member of the extended executive management of Bank Vontobel AG:

Name
Christoph Ledergerber
Walter Temperli

Resignations in 2009:

Walter Thoma	01-03-09 until 27-08-09
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To the General Meeting of
Bank Vontobel AG, Zurich

Berne, 11 February 2010

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements (balance sheet, income statement, cash flow statements and notes, pages 6 to 34) of Bank Vontobel AG for the year ended 31 December 2009.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

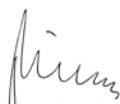
Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 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


Michael Riesen
Licensed audit expert


Iqbal Khan
Licensed audit expert
(Auditor in charge)