

# MAERKI BAUMANN & CO. AG

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PRIVATE BANK



A N N U A L   R E P O R T   2 0 1 6

## ANNUAL REPORT 2016

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## MESSAGE FROM THE BOARD OF DIRECTORS

# Picking up speed

Dear shareholders

Dear friends of Maerki Baumann

Those who do not know the past cannot master the present, and are poorly equipped to face the future. While this saying obviously applies to most companies, it is particularly true of private banks. Only an unsparing look back can make us fully aware of the turbulent times our industry has been going through. Indeed, I have the feeling that none of the old certainties have retained their validity. Swiss banking secrecy, for years declared to be sacrosanct, now only applies within Switzerland. The entrepreneurial freedom that we banks used to enjoy is now severely restricted by an avalanche of regulation. And whereas only ten years ago it was advisable for a bank to publish as little about its own business activities as possible, the emphasis today is on total transparency. In short, our industry has had to largely reinvent itself over the last few years – while at the same time coming under pressure and public scrutiny.

Now, I do not side with those who would claim that "everything was better in the old days." I absolutely recognise that a certain amount of regulation was necessary, and that transparency can help us to once more review our actions in a critical way. And it is also very much the case that – to bring in another saying – hard times "separate the wheat from the chaff." It is pleasing that Maerki Baumann has fared well from this perspective. But I do bemoan the fact that, owing to all these changes, the former, perhaps excessive, trust in the Swiss banks has given way to an almost fundamental distrust among many political and administrative decision-makers. In my discussions with politicians, I sometimes get the feeling that only bad things are expected from

us, and that the key economic contribution that we as banks make – and will continue to make – is undervalued.

Accordingly, one of the most pressing tasks for us right now is to rebuild that trust. I am confident that we can do this, not least because the relationship of trust between us and our clients remains strong, despite all this external turbulence. We are very grateful for that.

Another positive aspect is the result posted by our bank for 2016. For example, the level of client assets entrusted to us has risen by a pleasing CHF 400 million. We have succeeded in improving both operating and net profit significantly. And as an expression of our very healthy balance sheet, the Tier 1 capital ratio has increased in a year-on-year comparison. Through my conversations with clients, I am aware that our financial solidity constitutes a cornerstone of our success, along with the high professionalism of our staff. As the owner family of Maerki Baumann, we are therefore committed to ensuring that our bank remains a safe haven for our valued clients – particularly when storm clouds gather – over the coming years and decades too.

In 2016, we successfully concluded a number of strategically important projects. We launched an innovative modular investment solution that will allow us to achieve even greater differentiation in asset management services. In addition, we resolved our legacy issues with Germany, arriving at a fair agreement that will enable us to focus without distraction on the future. On the operational side, a particularly important development for us was the decision by InCore Bank AG – which, as transaction bank, provides Maerki Baumann with a number of key services – to enter into a close co-operation with the Zurich-based banking service provider SOBACO. The company has acquired a majority stake in InCore Bank

AG, but we remain significantly involved as a family with a substantial minority stake. This will ensure that both our clients and Maerki Baumann itself can continue to rely on state-of-the-art technical processing of banking transactions. Maerki Baumann will continue to focus unwaveringly on its core competencies in the business with private and institutional clients, as well as on our very successful area of indirect real estate investments. We are convinced that the personal, long-term-oriented advice that we provide will continue to meet a major and enduring need, despite - or indeed perhaps because of - the numerous changes referred to above. The increasing digital possibilities in the banking business, which we too obviously make available to our clients, will not change anything in this respect. Developing customised solutions and services for our clients will therefore remain at the heart of our work.

On behalf of our family and the entire Board of Directors, I would like to express our gratitude to everyone who has contributed to the success of our bank.

A handwritten signature in dark ink, consisting of three stylized, vertical strokes that resemble the letters 'H', 'S', and 'W' connected together.

Hans G. Syz-Witmer

Chairman of the Board of Directors



**Board of Directors**

From left to right:

**Hans G. Syz-Witmer**

**Dr. Carole Schmied-Syz**

**Prof. Dr. Bruno Gehrig**

**Michele Moor**

**Urs Lauffer**

## The keys to success

2016 was a memorable year. The United Kingdom voted to leave the European Union, the US electorate chose Donald Trump as their new president, millions of refugees flocked to the gates of Europe, and two of Switzerland's immediate neighbours – Germany and France – fell victim to shocking terrorist attacks. These events were just individual facets of a deep-rooted transformation that is affecting all parts of our economy and society, and ultimately also our system of values. Driven by globalisation and digitisation, the relevance of geographic borders has diminished, social imbalances have become more transparent, geopolitical tensions have risen, and cultural differences are increasingly manifesting themselves in the form of conflicts.

Unlike in the past, the financial markets responded to these events last year in a surprisingly moderate way. Can this phenomenon be explained by the increasing influence being exercised by politicians and central banks? Have market participants become calmer, braver or less emotional? Or perhaps it comes down to the fundamental data justifying a positive outlook? Whatever the answers to these questions, one thing is clear: forecasts for the development of the financial markets and therefore the optimum strategy for managing one's own assets have become more complex for our clients. For ultimately, it is not only economics that matters but also the evolution of traditions, the transformation of institutions, the collapse of old certainties, and last but not least – politics.

### **Positioning as private banking boutique**

As a family enterprise of a manageable scale, Maerki Baumann possesses the necessary flexibility and foresight to respond rapidly and expertly to this dynamic environ-

ment, and to act as a reliable partner when it comes to addressing the multifaceted aspects of wealth management. Indeed, we have taken advantage of our independence to prepare ourselves for the future in a wholly targeted way, without enslaving ourselves to short-term return expectations. The last financial year was ground-breaking in many respects. With the successful launch of our modular investment solution, not only did we provide proof of Maerki Baumann's innovative capabilities, we also created an attractive platform for future services. This will form the basis for our comprehensive approach in the investment advisory and asset management spheres, which is rounded off by our advisory expertise in the areas of real estate and retirement planning.

A particular mention should go here to our experienced and motivated employees. They have responded to the needs of our clients day in, day out, and moulded the individuality and quality of our services with their personal dedication. Without their professional approach to the changes sweeping through our industry and their determination to augment their skills and knowledge through ongoing training, the transformation of Maerki Baumann into a modern private banking boutique would hardly have been possible. Moreover, the numerous job applications we receive from highly qualified applicants lead us to conclude that our corporate philosophy is not only being lived within the bank but is resonating in the marketplace as well.

Finally, we adapted our organisational structure to modern requirements in 2016. In the wake of this development, Robert Simoni was appointed Head of Investment Solutions with a seat on the Executive Board. In this function, he is responsible for our comprehensive financial services as well

as the investment area of Maerki Baumann. In the person of Dr. Alexander Ising, Head of Corporate Services, a further specialist from our own ranks has now joined the Executive Board. He is responsible for banking operations and innovations. Our well-established management team, which consists of proven individuals, provides the assurance of both continuity in client management and the continuous development of our private bank.

### **Business performance of Maerki Baumann**

Growing regulatory requirements, persistent pressure on margins, the strong Swiss franc and the negative interest rates imposed on sight deposits with the Swiss National Bank proved a particular challenge in the last financial year. It is therefore all the more pleasing that we were able to surpass the prior-year result comfortably, increase assets under management further, and additionally strengthen our equity capital base. Gross profit amounted to CHF 3.71 million, an increase of CHF 1.56 million on the previous year. At CHF 2.08 million, net profit was more than double the figure of the previous year (plus CHF 1.06 million). We therefore succeeded in making the necessary investment, while at the same time sustainably improving our annual result.

Despite the low (and indeed negative) interest rate environment, prudent balance sheet management enabled us to achieve a year-on-year increase in net interest income by CHF 1.04 million to CHF 4.13 million. Fee and commission income amounted to CHF 27.46 million, just CHF 0.44 million below the prior-year level. The increase in mandate fees compared to the previous year was unable to compensate fully for the decline in variable revenues. At CHF 2.11 million, net trading income was some CHF 0.52 million lower than in the previous year, a develop-

ment attributable to a one-off foreign currency gain the previous year and a market-related decline in foreign exchange turnover. Other ordinary income amounted to CHF 1.65 million, or CHF 0.63 million lower than in the previous year. The main reason for this decline was the receipt of extraordinary dividends from the SIX holding in the previous year.

Given the ongoing structural change in private banking and the challenging market environment, we initiated a number of corrective measures on the cost side. The unavoidable reduction of personnel capacity was achieved by reducing headcount from 91 (expressed in full-time equivalents) the previous year to 73 as at the end of 2016. This enabled us to trim our personnel expenses by CHF 1.56 million to CHF 21.46 million, although the resulting saving will only impact fully in 2017. Thanks to our disciplined cost containment, general and administrative expenses likewise recorded a year-on-year decline, in this case of around CHF 0.55 million to CHF 10.18 million. Accordingly, operating expenses came in at CHF 31.64 million, equivalent to a significant year-on-year decline of CHF 2.11 million.

Client assets rose by around CHF 400 million to CHF 7.3 billion, an increase of 6 percent. This breaks down into positive performance of CHF 345 million and net new money of some CHF 60 million. Particularly gratifying growth was recorded in our core business with Swiss clients, which expanded by approximately CHF 265 million in net terms. In line with the market strategy of Maerki Baumann, the assets of Swiss clients now account for around 75 percent of our customer base, and those of German clients more than 10 percent.

We reached an agreement with the German authorities in the tax dispute in 2016, thereby closing the final major chapter in the resolution of our legacy issues. The associ-

ated payment is covered by provisions and bank reserves, and will not weigh on the operating result.

Maerki Baumann has well-established systems for identifying, limiting and monitoring significant risks. The Board of Directors and the Executive Board regularly review the relevant market, credit and liquidity risks as well as the operational risks (see "Description of business activities"). Our conservative risk and business policy is reflected in excellent liquidity and capital adequacy ratios. At the end of 2016, the liquidity coverage ratio stood at 225.7 percent – threefold the required level of 70 percent. With a BIS Tier 1 capital ratio of 17.4 percent, well in excess of the required 10.5 percent, Maerki Baumann also had a very solid equity capital base at the year-end. Not only did we therefore comfortably surpass regulatory minimum requirements once again, we also underscored the stability of our bank.

### **Outlook**

Maerki Baumann has always viewed change in the private banking industry as an opportunity. The transformation of our private bank has in particular involved the further development of client advisors and specialists, the launch of attractive new services, the advancement of advisory and investment processes and the establishment of robust IT systems. Thanks to our consistent approach, we now meet all the prerequisites to satisfy the needs of our clients professionally and individually, despite the changed parameters. Our future-oriented business model, our client-focused strategy and our unique corporate culture as well as the determination of our employees to achieve something special together are the keys to our future success.

We are more convinced than ever that, as an independent family enterprise relying on an honest and transparent service philosophy as well as innovative investment solutions,

we are perfectly in tune with the times: as a Swiss private banking boutique, Maerki Baumann offers a genuine alternative to those institutions that focus excessively on standardisation and lack the necessary individuality that is so important to clients. We want to leverage the advantages of our private bank even better in the market in future, and thereby generate further growth. At the same time, we will increasingly exploit the potential offered by digitisation, but without in any way undermining the importance of personal client contact, which will always be a key reference point for our advisory and investment activity.

On behalf of the Executive Board



Dr. Stephan A. Zwahlen  
Chief Executive Officer



**Executive Board**

From left to right:

**Dr. Stephan A. Zwahlen**

**Lukas S. Risi**

**Robert Simoni**

**Dr. Alexander Ising**

## OWNERSHIP AND ORGANISATIONAL STRUCTURE

### Ownership

Maerki Baumann & Co. AG is a private bank and wholly owned subsidiary of Maerki Baumann Holding AG, of which the ownership structure is as follows:

- CHSZ-Holding AG, Zurich 51.3%
- Raymonde Syz-Abegg, Gutenswil 43.6%
- Third-party shareholders 5.1%

The Board of Directors of Maerki Baumann Holding AG is comprised by Dr. Carole Schmied-Syz (Chairwoman), Hans G. Syz-Witmer (Vice-Chairman), Urs Lauffer and Bignia Vieli.

CHSZ-Holding AG is owned 50% each by Hans G. Syz-Witmer and Dr. Carole Schmied-Syz. The Board of Directors of CHSZ-Holding AG is comprised by Dr. Christoph Reinhardt (Chairman), Hans G. Syz-Witmer, Dr. Carole Schmied-Syz and Urs Lauffer.

### Board of Directors

Hans G. Syz-Witmer, Küssnacht, Chairman  
Dr. Carole Schmied-Syz, Erlenbach, Vice-Chairwoman  
Prof. Dr. Bruno Gehrig, Winterthur\*  
Urs Lauffer, Steinmaur\*  
Michele Moor, Lugano\*

### Audit Committee\*\*

Prof. Dr. Bruno Gehrig, Winterthur, Chairman\*  
Michele Moor, Lugano\*  
Dr. Carole Schmied-Syz, Erlenbach

### Executive Board

Dr. Stephan A. Zwahlen, CEO  
Lukas S. Risi, Deputy CEO, Head Private Banking  
Robert Simoni, Head Investment Solutions  
Dr. Alexander Ising, Head Corporate Services

### Senior Management

Emilio Amati, Markus Bättig, Roger Bender, Michael Bosse, Peter Brönnimann, Reto Cavelti, Daniel Egger, Rolf Frey, Alfred Füeg, Milko Hensel, Ora Hutmacher, Annette Käppeli, Christian Kappes, Kurt Leuthard, Alexander Lühr, Monika Lüscher, Markus Meili, Dagmara Nägeli, Reinhard Rutz, Gerard Schmid, Christoph Schnellmann, Michael Siegmann, Markus Staffelbach, Daniel Vögtli, Marc Wyss, Roland Zumbühl, Stéphane Zumello, Jean Nadine Zwahlen

### Internal Audit

Stefan Künzler

### Auditors

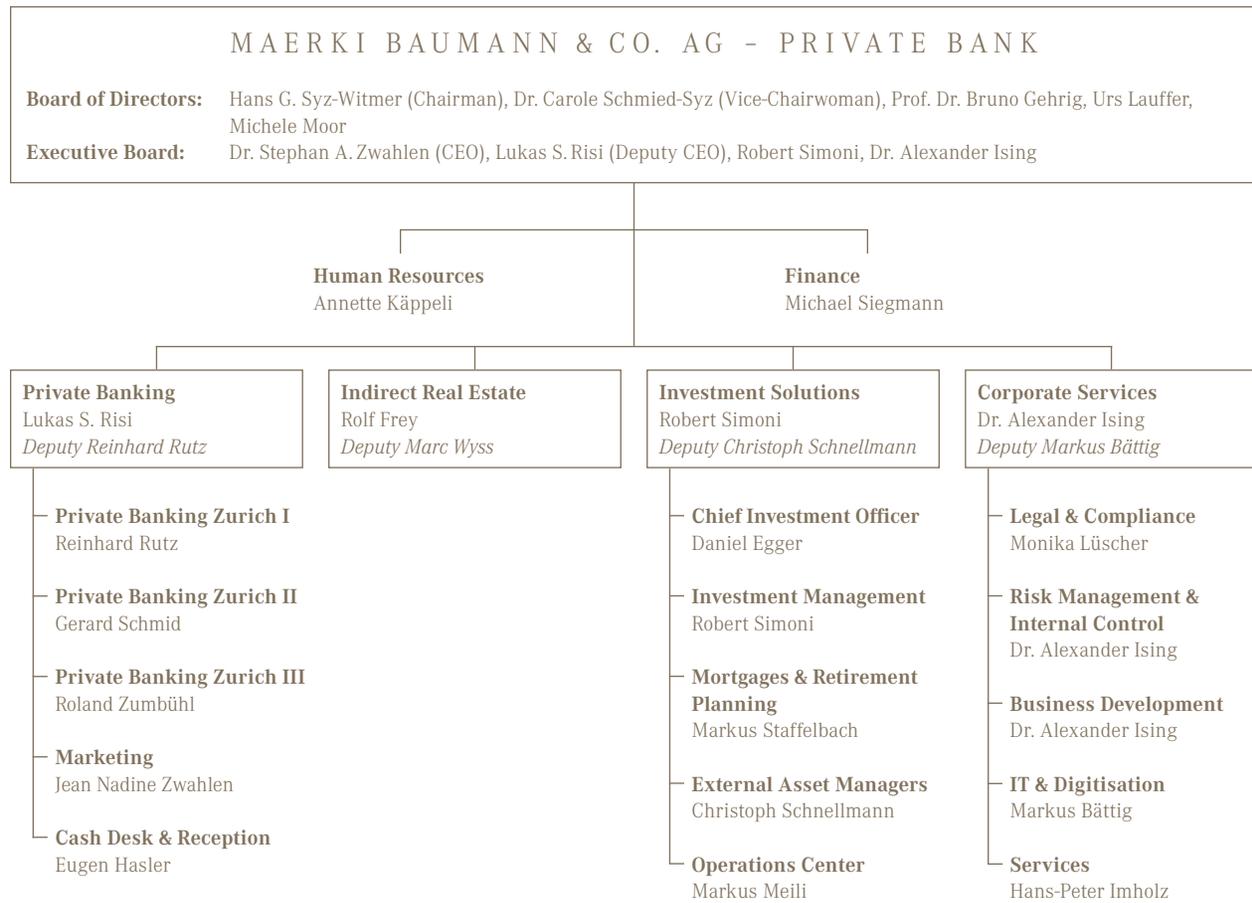
PricewaterhouseCoopers AG, Zurich

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\* Independent members of the Board of Directors, as defined by the regulations of the Swiss Financial Market Supervisory Authority (FINMA).

\*\* The provisions of the FINMA circular "Supervision and Internal Controls" are not applicable because the company is not required to have an audit committee.

## ORGANISATIONAL STRUCTURE



As at 1 April 2017

## KEY FIGURES

| in CHF 1 000                                | 2016      | 2015      |
|---|-----------|-----------|
| Annual profit                               | 2 076     | 1 013     |
| Gross profit                                | 3 705     | 2 147     |
| Net fee and commission income               | 27 458    | 27 898    |
| Net trading income                          | 2 111     | 2 633     |
| Net interest income                         | 4 134     | 3 095     |
| Operating expenses                          | 31 644    | 33 750    |
| Total assets                                | 660 832   | 718 589   |
| Client assets                               | 7 296 000 | 6 891 000 |
| Eligible capital                            | 50 066    | 48 999    |
| Required regulatory capital                 | 23 022    | 23 101    |
| Excess capital                              | 27 044    | 25 898    |
| Tier 1 capital ratio                        | 17.4%     | 17.0%     |
| Number of employees (full-time equivalents) | 73        | 91        |

## BALANCE SHEET

| in CHF 1 000  | 31.12.2016     | 31.12.2015     | Change         |
|---|----------------|----------------|----------------|
| <b>Assets</b>   |                |                |                |
| Liquid assets   | 144 615        | 156 896        | -12 281        |
| Amounts due from banks  | 110 105        | 201 796        | -91 691        |
| Amounts due from securities financing transactions              | 0              | 0              | 0              |
| Amounts due from customers                                      | 59 145         | 55 002         | 4 143          |
| Mortgage loans  | 60 572         | 59 281         | 1 291          |
| Trading portfolio assets  | 0              | 0              | 0              |
| Positive replacement values of derivative financial instruments | 2 105          | 1 648          | 457            |
| Other financial instruments at fair value                       | 0              | 0              | 0              |
| Financial investments   | 254 611        | 214 392        | 40 218         |
| Accrued income and prepaid expenses                             | 7 991          | 7 845          | 146            |
| Participations  | 3 844          | 3 435          | 409            |
| Tangible fixed assets   | 15 286         | 15 933         | -647           |
| Intangible assets   | 0              | 0              | 0              |
| Other assets  | 2 558          | 2 360          | 198            |
| Capital not paid in   | 0              | 0              | 0              |
| <b>Total assets</b>   | <b>660 832</b> | <b>718 589</b> | <b>-57 757</b> |
| Total subordinated claims                                       | 0              | 0              | 0              |
| of which with conversion obligation and/or debt waiver          | 0              | 0              | 0              |

| in CHF 1 000  | 31.12.2016     | 31.12.2015     | Change         |
|---|----------------|----------------|----------------|
| <b>Liabilities</b>  |                |                |                |
| Amounts due to banks  | 4 406          | 145            | 4 261          |
| Liabilities from securities financing transactions              | 0              | 0              | 0              |
| Amounts due in respect of customer deposits                     | 590 379        | 656 700        | -66 322        |
| Trading portfolio liabilities                                   | 0              | 0              | 0              |
| Negative replacement values of derivative financial instruments | 2 355          | 1 548          | 807            |
| Liabilities from other financial instruments at fair value      | 0              | 0              | 0              |
| Cash bonds  | 0              | 0              | 0              |
| Bond issues and central mortgage institution loans              | 0              | 0              | 0              |
| Accrued expenses and deferred income                            | 6 045          | 5 163          | 882            |
| Other liabilities   | 1 407          | 1 744          | -337           |
| Provisions  | 6 174          | 3 276          | 2 898          |
| Reserves for general banking risks                              | 13 697         | 15 867         | -2 170         |
| Share capital   | 3 000          | 3 000          | 0              |
| Statutory capital reserve                                       | 147            | 0              | 147            |
| of which tax-exempt capital contribution reserve                | 147            | 0              | 147            |
| Statutory retained earnings reserve                             | 18 650         | 18 650         | 0              |
| Voluntary retained earnings reserves                            | 8 800          | 8 800          | 0              |
| Own shares (negative item)                                      | 0              | 0              | 0              |
| Profit carried forward  | 3 696          | 2 683          | 1 013          |
| Profit  | 2 076          | 1 013          | 1 063          |
| <b>Total liabilities</b>  | <b>660 832</b> | <b>718 589</b> | <b>-57 757</b> |
| Total subordinated liabilities                                  | 0              | 0              | 0              |
| of which with conversion obligation and/or debt waiver          | 0              | 0              | 0              |
| <b>Off-balance-sheet transactions</b>                           |                |                |                |
| Contingent liabilities  | 4 111          | 4 240          | -129           |
| Irrevocable commitments   | 3 010          | 5 480          | -2 470         |
| Obligations to pay up shares and make further contributions     | 0              | 0              | 0              |
| Credit commitments  | 0              | 0              | 0              |

## INCOME STATEMENT

| in CHF 1 000   | 2016          | 2015          | Change       |
|--|---------------|---------------|--------------|
| <b>Result from interest operations</b>   |               |               |              |
| Interest and discount income   | 2 331         | 1 916         | 415          |
| Interest and dividend income from trading portfolios                               | 24            | 0             | 24           |
| Interest and dividend income from financial investments                            | 1 794         | 1 209         | 586          |
| Interest expense   | -15           | -30           | 14           |
| <b>Gross result from interest operations</b>                                       | <b>4 134</b>  | <b>3 095</b>  | <b>1 039</b> |
| Changes in value adjustments for default risks and losses from interest operations | 0             | 0             | 0            |
| <b>Subtotal net result from interest operations</b>                                | <b>4 134</b>  | <b>3 095</b>  | <b>1 039</b> |
| <b>Result from commission business and services</b>                                |               |               |              |
| Commission income from securities trading and investment activities                | 31 149        | 30 880        | 269          |
| Commission income from lending activities  | 35            | 44            | -9           |
| Commission income from other services  | 1 446         | 2 162         | -716         |
| Commission expense   | -5 172        | -5 188        | 16           |
| <b>Subtotal result from commission business and services</b>                       | <b>27 458</b> | <b>27 898</b> | <b>-440</b>  |
| <b>Result from trading activities and the fair value option</b>                    | <b>2 111</b>  | <b>2 633</b>  | <b>-522</b>  |
| <b>Other result from ordinary activities</b>                                       |               |               |              |
| Result from the disposal of financial investments                                  | 472           | 177           | 295          |
| Income from participations   | 256           | 884           | -628         |
| Result from real estate  | 0             | 0             | 0            |
| Other ordinary income  | 1 603         | 1 521         | 82           |
| Other ordinary expenses  | -685          | -310          | -374         |
| <b>Subtotal other result from ordinary activities</b>                              | <b>1 646</b>  | <b>2 271</b>  | <b>-625</b>  |

| in CHF 1000  | 2016           | 2015           | Change        |
|--|----------------|----------------|---------------|
| <b>Operating expenses</b>  |                |                |               |
| Personnel expenses   | -21 460        | -23 021        | 1 561         |
| General and administrative expenses  | -10 184        | -10 729        | 545           |
| <b>Subtotal operating expenses</b>   | <b>-31 644</b> | <b>-33 750</b> | <b>2 106</b>  |
| Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets | -1 268         | -1 143         | -125          |
| Changes to provisions and other value adjustments and losses   | -4 090         | -18 183        | 14 093        |
| <b>Operating result</b>  | <b>-1 653</b>  | <b>-17 178</b> | <b>15 525</b> |
| Extraordinary income   | 1 653          | 0              | 1 653         |
| Extraordinary expenses   | 0              | 0              | 0             |
| Changes in reserves for general banking risks  | 2 170          | 18 278         | -16 108       |
| Taxes  | -95            | -87            | -8            |
| <b>Profit</b>  | <b>2 076</b>   | <b>1 013</b>   | <b>1 063</b>  |
| <b>Appropriation of profit</b>   |                |                |               |
| Profit   | 2 076          | 1 013          | 1 063         |
| Profit carried forward   | 3 696          | 2 683          | 1 013         |
| <b>Distributable profit</b>  | <b>5 772</b>   | <b>3 696</b>   | <b>2 076</b>  |
| <b>Appropriation of profit</b>   |                |                |               |
| Allocation to statutory retained earnings reserves   | 0              | 0              | 0             |
| Allocation to voluntary retained earnings reserves   | -2 076         | 0              | -2 076        |
| Distributions from distributable profit  | 0              | 0              | 0             |
| Other appropriation of profit  | 0              | 0              | 0             |
| <b>New amount carried forward</b>  | <b>3 696</b>   | <b>3 696</b>   | <b>0</b>      |

## STATEMENT OF CHANGES IN EQUITY

| in CHF 1 000  | Equity<br>at start of<br>current period | Capital<br>increase /<br>decrease | Allocation<br>of retained<br>earnings<br>2015 | Transfer of<br>reserves for<br>general<br>banking risks | Profit<br>(result of<br>the period) | Equity<br>at end of<br>current period |
|---|---|-----------------------------------|---|---|-------------------------------------|---------------------------------------|
| Share capital   | 3 000                                   | 0                                 | 0   | 0   | 0                                   | 3 000                                 |
| Statutory capital reserve   | 0                                       | 147                               | 0   | 0   | 0                                   | 147                                   |
| Statutory retained earnings reserve                                       | 18 650                                  | 0                                 | 0   | 0   | 0                                   | 18 650                                |
| Reserves for general banking risks  | 15 867                                  | 0                                 | 0   | -2 170  | 0                                   | 13 697                                |
| Voluntary retained earnings reserves<br>and profit / loss carried forward | 11 483                                  | 0                                 | 1 013   | 0   | 0                                   | 12 496                                |
| Result of the period  | 1 013                                   | 0                                 | -1 013  | 0   | 2 076                               | 2 076                                 |
| <b>Total</b>  | <b>50 013</b>                           | <b>147</b>                        | <b>0</b>                                      | <b>-2 170</b>   | <b>2 076</b>                        | <b>50 066</b>                         |

NOTES TO THE FINANCIAL STATEMENTS

## DESCRIPTION OF BUSINESS ACTIVITIES

### **Business activities**

Maerki Baumann & Co. AG was established in 1932 and is mainly active in the areas of asset management and investment advisory services for private and institutional clients as well as the provision of services to external asset managers. In this connection, it conducts lending business on a modest scale. Its main business area and principal source of income is commission and service fee business, which accounts for approximately 78% of ordinary income. Interest margin business contributes 12% to ordinary income and trading business 6%. Other ordinary income accounts for 4%.

### **Business areas**

The main business activities can be described as follows:

- Investment advisory services for private and institutional clients
- Asset management for private and institutional clients
- Provision of services to external asset managers
- Indirect real estate investments for institutional clients
- Lending to existing private clients (collateral loans and mortgage solutions)

Geographically, the bank's client relationships are primarily concentrated in Switzerland and other parts of Europe (primarily Germany).

### **Commission and service fee business**

Asset management and investment advisory services are the major components in the bank's commission and service fee business. These services are used by both our private and institutional clients. Services provided to external asset managers also generate significant income for the bank.

### **Trading business**

The bank does not trade in securities for its own account. Foreign currencies and precious metals are traded without significant open risk positions. Trading in financial derivatives is restricted to products traded on a regular basis on behalf of our clients.

### **Lending business**

The bank adheres to a restrictive lending policy and grants predominantly collateralised loans against liquid securities in diversified portfolios. Conservative loan-to-value ratios ensure that default risk is kept to a minimum. The loans reported as mortgages are secured by Swiss residential real estate.

**Risk assessment**

The Board of Directors and Executive Board regularly examine the major risks to which the bank is exposed, including operational, market, credit and liquidity risks. Risk-reducing measures, internal controls and reporting are also included in the risk assessment. Special attention is paid to ensuring continuous monitoring and evaluation of the impacts of these key risks on the bank's financial statements. Limits are set for the individual risk categories and are constantly monitored.

**Risk management**

The risks arising from banking activities are systematically identified, managed and limited in accordance with uniform guidelines. The adequacy of the bank's risk management policies is reviewed periodically and policies are adapted as necessary.

**Interest rate and credit risks**

Most loans are granted at short-term variable interest rates. Major interest rate fluctuation risks are avoided by means of maturity and currency matching in the funding process. Lending is subject to uniform guidelines and clearly defined levels of authorisation. Separate loan-to-value ratios have been set down for each category of collateral in order to minimise credit risks. These take into account the country, market and credit rating risk of the issuers. For securities and precious metals, the bank applies current market values. In calculating the market value of real estate, the bank uses current estimates or the acquisition costs less any impairment of value due to market conditions or age.

Exposed loans, i.e. claims on clients where it is improbable that the debtor will be able to meet future obligations, are valued individually and the expected loss is recognised through an individual valuation adjustment. Impairment on exposed loans is measured as the difference between the carrying amount of the claim and the expected recoverable amount. The expected recoverable amount of the collateral is its liquidation value (estimated realisable disposal value less holding and liquidation costs). The entire client or economic entity exposure is always examined for current counterparty risks.

**Market risks**

Market risks for securities are restricted by means of a system of limits defined by the category of security and individual transactions. Valuation is based on current market value. The limits the bank has set on market risks are very restrictive. Maerki Baumann & Co. AG holds no significant positions in derivative instruments for its own account and does not trade in illiquid markets for its own account.

**Liquidity risks**

Liquidity risks are subject to continuous monitoring. The bank has a high level of liquid funds which significantly exceed the minimum legal requirements stipulated by the Swiss Financial Market Supervisory Authority (FINMA).

### **Operational risks**

The bank has internal regulations and directives as well as a well-developed system of controls allowing it to limit and monitor operational risks. Legal risks are reduced by means of standard framework contracts and uniformly maintained documentation.

### **Methods used to identify default risks and determine valuation adjustments**

**Mortgages:** The fair value of residential properties is determined regularly by external real estate valuations. Moreover, the credit standing of the borrower is reviewed at regular intervals. Mortgages are only granted to established private banking clients and employees. In addition, outstanding interest and repayment instalments are analysed. On this basis, the bank identifies higher-risk mortgages. These are then examined in more detail by credit specialists. Where appropriate, further collateral is required or corresponding valuation adjustments are made to reflect the shortfall in collateral.

**Securities-backed loans:** Exposure to securities-backed loans and the value of the collateral are monitored daily. Where the loan-to-value ratio of the securities provided as collateral is below the exposure, the loan is reduced or a call made for additional collateral. In the event of an increase in the shortfall, or of exceptional market conditions, the collateral is liquidated and the loan closed out.

**Unsecured loans:** As a matter of principle, no unsecured loans are granted.

**Procedure used to determine valuation adjustments and provisions:** The need for new valuation adjustments and provisions is identified using the procedure described above. Furthermore, known risk positions where a risk has already been identified in the past are reassessed and the valuation

adjustments are altered where necessary. The Risk Management department assesses and applies for all valuation adjustments relating to risk positions. Approval has to be obtained from the Executive Board and Board of Directors.

### **Valuation of collateral**

**Mortgages:** In the mortgage business, an up-to-date collateral valuation is available for every loan granted. In the valuation of residential property, the bank has access to independent external estimates.

**Securities-backed loans:** For lombard loans and other securities-backed loans, diversified portfolios with transferable financial instruments for which there is a liquid and active market are normally accepted. The bank applies conservative discounts to the market values to cover the market risk associated with liquid and marketable securities and determines the loan-to-value ratio.

### **Outsourcing**

Maerki Baumann & Co. AG has outsourced the trading of securities, currencies and precious metals and the processing of this trading business, payment transactions and operation of central IT systems to InCore Bank AG. Processing of mortgage transactions has been outsourced to Avobis Credit Services AG. These outsourcing processes are regulated in detail by contracts complying with the regulations of FINMA. All employees of service providers are subject to banking secrecy, which ensures that client data are protected.

### **Personnel**

At year-end the bank had 73 full-time equivalent employees (previous year: 91).

**Material events after the balance sheet date**

No material events have occurred since the balance sheet date which significantly influence the bank's assets, financial position or earnings.

## ACCOUNTING AND VALUATION PRINCIPLES

### **General principles**

The bookkeeping, accounting and valuation principles are based on the provisions of the Swiss Code of Obligations, banking law and statutory regulations, and on the guidelines of the Swiss Financial Market Supervisory Authority (FINMA). These financial statements are deemed to be reliable assessment statutory single-entity financial statements. Transactions are recognised in accordance with the trade date principle. Assets and liabilities as well as off-balance-sheet transactions are valued individually. The main valuation principles are described below. There may be rounding differences in the values shown in the tables in the Notes as compared to the values in the balance sheet and income statement.

### **Basis of consolidation**

Maerki Baumann & Co AG is fully consolidated in the Maerki Baumann Group. It does not possess any holdings that need to be consolidated.

### **Change versus the previous year**

The accounting and valuation principles are unchanged versus the prior year.

### **Foreign currencies**

Assets and liabilities in foreign currencies and banknotes are valued at the applicable mid-rates as of the balance sheet date. The two key currencies in our financial statements (USD and EUR) were converted as follows: the US dollar at CHF 1,0160 (prior year 0.9925) and the euro at CHF 1.0730 (prior year 1.0830). Transactions in foreign currencies are booked at the applicable exchange rate on the trade date. Differences in exchange rates are booked to the income statement.

### **Cash and other liquid assets due from banks and clients, mortgages and borrowings**

These items are shown in the balance sheet at nominal value. Individual valuation adjustments are made for discernible risks in accordance with the principle of prudence. These are offset against loans. Should a debtor be more than 90 days in arrears on interest payments, the interest due is allocated directly to the valuation adjustments. In this case, a credit to income is only made after the interest payment has actually been made. If a receivable is deemed to be non-recoverable, it is written off. Loans on which valuation adjustments have been made are classified as exposed loans until they have been repaid in full.

### **Trading portfolios and obligations relating to trading portfolios**

Trading portfolios are valued at market prices at the balance sheet date. Interest and dividend income is reported under "Interest and dividend income from trading portfolios".

### **Financial investments**

Investments that are carried out with the intention of resale are valued in accordance with the principle of lower of cost or market. Fixed-interest investments which are expected to be held to maturity are valued using the accrual method. Interest and dividend income is reported under "Interest and dividend income from financial investments".

### **Participations**

Capital or voting shares in other companies are recognised as participations at the cost of acquisition less any required valuation adjustments.

### **Tangible fixed assets**

Tangible fixed assets are recognised at acquisition price and are depreciated over a conservatively estimated useful life. They are tested annually for impairment. If the impairment test results in a different useful life or a decrease in value, an extraordinary write-off is performed and the residual book value is depreciated according to schedule over the remaining useful life. The estimated useful life for the different categories of tangible fixed assets is as follows:

- Bank buildings (excluding land): maximum 50 years
- Software, IT and communications equipment:  
maximum 3 years
- Other tangible fixed assets: maximum 10 years

### **Pension liabilities**

The bank operates a full-insurance defined contribution scheme for employees. In addition, there is a legally independent employer's fund for supporting employees and retirees in case of financial difficulties. Employer contributions are reported as personnel expenses.

### **Provisions**

Provisions are recognised for all discernible risks in accordance with the principle of prudence and are reported under liabilities. Provisions may include hidden reserves, which are reported under other provisions.

### **Contingent liabilities**

Contingent liabilities are reported at the maximum amount. Provisions are established for discernible risks in accordance with the principle of prudence.

### **Provision for general banking risks**

In accordance with Article 18 of the Swiss Federal Capital Adequacy Ordinance, this provision is accounted for as equity and was already subject to taxation.

### **Taxes**

Taxes are charged to the year in which they are incurred on the basis of commercial considerations. No deferred taxes are recognised.

### **Precious metals accounts**

The valuation of precious metals accounts is based on listed prices at the balance sheet date.

### **Derivative financial instruments**

Open derivative financial instruments at the balance sheet date are carried on the balance sheet at their positive and negative replacement values. The contract volumes are reported in the Notes. The replacement values are based on open forward transactions at forward residual maturity prices. Options with a representative market are valued at current market rates. In the case of OTC options, the counterparty is not disclosed to clients. Netting agreements exist.

## INFORMATION ON THE BALANCE SHEET

### Breakdown of securities financing transactions (assets and liabilities)

none

### Presentation of collateral for loans / receivables and off-balance-sheet transactions, as well as impaired loans / receivables

| in CHF 1 000  | Type of collateral  |                  |               | Total        |                |
|---|---------------------|------------------|---------------|--------------|----------------|
|   | Secured by mortgage | Other collateral | Unsecured     |              |                |
| <b>Loans</b>  |                     |                  |               |              |                |
| Amounts due from customers                                  |                     | 53 683           | 5 462         | 59 145       |                |
| Mortgage loans  | 60 572              |                  |               | 60 572       |                |
| Residential property  | 59 172              |                  |               | 59 172       |                |
| Office and business premises                                |                     |                  |               |              |                |
| Commercial and industrial premises                          |                     |                  |               |              |                |
| Other   | 1 400               |                  |               | 1 400        |                |
| <b>Total loans</b>  | <b>2016</b>         | <b>60 572</b>    | <b>53 683</b> | <b>5 462</b> | <b>119 717</b> |
| <b>(before netting with value adjustments)</b>              | 2015                | 59 281           | 50 265        | 4 736        | 114 282        |
| <b>Total loans</b>  | <b>2016</b>         | <b>60 572</b>    | <b>53 683</b> | <b>5 462</b> | <b>119 717</b> |
| <b>(after netting with value adjustments)</b>               | 2015                | 59 281           | 50 265        | 4 736        | 114 282        |
| <b>Off-balance-sheet</b>                                    |                     |                  |               |              |                |
| Contingent liabilities                                      |                     | 1 811            | 2 300         |              | 4 111          |
| Irrevocable commitments                                     |                     | 20               | 2 990         |              | 3 010          |
| Obligations to pay up shares and make further contributions |                     |                  |               |              |                |
| Credit commitments  |                     |                  |               |              |                |
| <b>Total off-balance-sheet</b>                              | <b>2016</b>         |                  | <b>1 831</b>  | <b>5 290</b> | <b>7 121</b>   |
|   | 2015                |                  | 5 204         | 4 516        | 9 720          |
| <b>Impaired loans / receivables</b>                         |                     |                  |               |              |                |
|   | <b>2016</b>         |                  |               |              |                |
|   | 2015                |                  |               |              |                |

### Breakdown of trading portfolios and other financial instruments at fair value (assets and liabilities)

none

### Presentation of derivative financial instruments (assets and liabilities)

| in CHF 1 000                              |  | Trading Instruments         |                             |                 |
|---|--|-----------------------------|-----------------------------|-----------------|
|   |  | Positive replacement values | Negative replacement values | Contract volume |
| <b>Interest rate instruments</b>          |  | none                        | none                        | none            |
| <b>Foreign exchange / precious metals</b> |  |                             |                             |                 |
| Forward contracts                         |  | 429                         | 678                         | 124 592         |
| Options (OTC)                             |  | 14                          | 14                          | 692             |
| <b>Equity securities / indices</b>        |  |                             |                             |                 |
| Options (exchange-traded)                 |  | 1 663                       | 1 663                       | 114 974         |
| <b>Credit derivatives</b>                 |  | none                        | none                        | none            |
| <b>Other</b>                              |  | none                        | none                        | none            |
| <b>Total before netting agreements</b>    |  | <b>2016</b>                 | <b>2 105</b>                | <b>2 355</b>    |
|   |  | 2015                        | 1 648                       | 1 548           |
| <b>Total after netting agreements</b>     |  | <b>2016</b>                 | <b>2 105</b>                | <b>2 355</b>    |
|   |  | 2015                        | 1 648                       | 1 548           |

### Breakdown by counterparty

|  | Central clearing houses   | Banks and securities dealers | Other customers |
|--|---|------------------------------|-----------------|
|  | Positive replacement value<br>(after consideration of netting agreements) |                              | 973             |

### Breakdown of financial investments

| in CHF 1 000  | Carrying amount |                |                | Fair value     |  |
|---|-----------------|----------------|----------------|----------------|--|
|   | 31.12.2016      | 31.12.2015     | 31.12.2016     | 31.12.2015     |  |
| Debt securities   | 250 735         | 208 557        | 252 980        | 210 670        |  |
| of which intended to be held to maturity  | 250 735         | 208 557        | 252 980        | 210 670        |  |
| of which not intended to be held to maturity (available for sale)                               |                 |                |                |                |  |
| Equity securities   | 3 875           | 5 835          | 3 919          | 5 995          |  |
| of which qualified participations   |                 |                |                |                |  |
| Precious metals   |                 |                |                |                |  |
| Real estate   |                 |                |                |                |  |
| <b>Total</b>  | <b>254 611</b>  | <b>214 392</b> | <b>256 900</b> | <b>216 665</b> |  |
| of which securities eligible for repo transactions<br>in accordance with liquidity requirements | 72 746          | 85 102         | 74 318         | 86 724         |  |

### Breakdown of counterparties by rating (Rating by S&P)

| in CHF 1 000                 | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | Below B- | Unrated |
|------------------------------|------------|----------|--------------|-----------|----------|---------|
| Debt securities: book values | 142 430    | 90 413   | 17 892       |           |          |         |

## Presentation of participations

| in CHF 1 000                             | Other participations |                      |
|--|----------------------|----------------------|
|  | With market value    | Without market value |
| Acquisition cost                         |                      | 3 435                |
| Accumulated value adjustments            |                      |                      |
| <b>Book value at previous year-end</b>   |                      | <b>3 435</b>         |
| Current year                             |                      |                      |
| Reclassifications                        |                      |                      |
| Additions                                |                      | 409                  |
| Disposals                                |                      |                      |
| Value adjustments                        |                      |                      |
| <b>Book value at end of current year</b> |                      | <b>3 844</b>         |
| Market value                             |                      | n/a                  |

## Disclosure of companies in which the bank holds a permanent direct or indirect significant participation

| Company name and domicile | Business activity | Company capital | Share of capital in % | Share of votes in % | Held directly, indirectly |
|---------------------------|-------------------|-----------------|-----------------------|---------------------|---------------------------|
| none                      |                   |                 |                       |                     |                           |

### Presentation of tangible fixed assets

| in CHF 1 000                             | Bank buildings | Software   | Other tangible fixed assets | Total tangible fixed assets |
|--|----------------|------------|-----------------------------|-----------------------------|
| Acquisition cost                         | 24 473         | 1 846      | 2 878                       | 29 197                      |
| Accumulated depreciation                 | -9 825         | -1 018     | -2 421                      | -13 264                     |
| <b>Book value at previous year-end</b>   | <b>14 648</b>  | <b>828</b> | <b>457</b>                  | <b>15 933</b>               |
| Current year                             |                |            |                             |                             |
| Reclassifications                        |                |            |                             |                             |
| Additions                                |                | 492        | 129                         | 620                         |
| Disposals                                |                |            |                             |                             |
| Depreciation                             | -289           | -779       | -199                        | -1 268                      |
| Reversals                                |                |            |                             |                             |
| <b>Book value at end of current year</b> | <b>14 359</b>  | <b>540</b> | <b>387</b>                  | <b>15 286</b>               |

### Lease commitments from operating leases

| in CHF 1 000   | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| Multi-year leasing agreements up to 2018 at the latest | 266        | 760        |
| of which due during the year                           | 144        | 159        |

### Presentation of intangible assets

none

### Breakdown of other assets and other liabilities

| in CHF 1 000         | Other assets |              | Other liabilities |              |
|----------------------|--------------|--------------|-------------------|--------------|
|                      | 31.12.2016   | 31.12.2015   | 31.12.2016        | 31.12.2015   |
| Compensation account |              |              |                   |              |
| Settlement accounts  |              |              | 1 246             | 1 741        |
| Indirect taxes       | 1 423        | 813          | 158               |              |
| Direct taxes         | 49           | 846          |                   |              |
| Other                | 1 087        | 701          | 3                 | 3            |
| <b>Total</b>         | <b>2 558</b> | <b>2 360</b> | <b>1 407</b>      | <b>1 744</b> |

### Disclosure of assets pledged or assigned to secure own commitments and of assets under reservation of ownership

| in CHF 1 000  | Book values | Effective commitments | Book values | Effective commitments |
|---|-------------|-----------------------|-------------|-----------------------|
|   | 31.12.2016  | 31.12.2016            | 31.12.2015  | 31.12.2015            |
| <b>Pledged / assigned assets</b>                            |             |                       |             |                       |
| Financial investments to cover margin requirements of banks | 29 712      | p.m.                  | 30 199      | p.m.                  |

### Assets under reservation of ownership

none

### Disclosures on the economic situation of own pension schemes

none

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### Presentation of the economic benefit / obligation and the pension expenses

| in CHF 1 000  | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| Pension expenses in personnel expenses: Employer pension fund |            |            |
| Pension expenses in personnel expenses: Pension fund          | 1 771      | 1 795      |

See also the information provided in the accounting and valuation principles; the bank switched to a full-insurance solution as of 1 January 2012, therefore there is no economic benefit for the bank.

Beneficiaries have no regulatory claims on the employer pension fund that could result in a future obligation on the company.

There is no employer contribution reserve.

### Presentation of issued structured products

none

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### Presentation of bonds outstanding and mandatory convertible bonds

none

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## Presentation of value adjustments and provisions / reserves for general banking risks

in CHF 1 000

|  | Balance at<br>2015 | Use in conformity<br>with designated<br>purpose | Reclassifications | Past due<br>interest,<br>recoveries | New creations<br>charged to<br>income | Releases to<br>income | Balance at<br>2016 |
|--|--------------------|---|-------------------|-------------------------------------|---------------------------------------|-----------------------|--------------------|
| Provisions for deferred taxes          |                    |   |                   |                                     |                                       |                       |                    |
| Provisions for default risks           | 99                 |   |                   |                                     |                                       |                       | 99                 |
| Provisions for other<br>business risks | 123                | -3  |                   |                                     |                                       |                       | 120                |
| Other provisions                       | 3 054              | -1 117  |                   |                                     | 4 051                                 | -33                   | 5 955              |
| <b>Total provisions</b>                | <b>3 276</b>       | <b>-1 120</b>                                   |                   |                                     | <b>4 051</b>                          | <b>-33</b>            | <b>6 174</b>       |
| Reserves for general<br>banking risks  | 15 867             |   |                   |                                     |                                       | -2 170                | 13 697             |

In connection with the desired taxation ruling with Germany as well as with the restructuring implemented in 2016 additional provisions were made, which in turn to a resolution of the reserves for general banking risks.

## Presentation of the share capital

| in CHF 1 000  | 2016            |               |                                  | 2015            |               |                                  |
|---------------|-----------------|---------------|----------------------------------|-----------------|---------------|----------------------------------|
|               | Total par value | No. of shares | Capital eligible<br>for dividend | Total par value | No. of shares | Capital eligible<br>for dividend |
| Share capital | 3 000           | 30 000        | 3 000                            | 3 000           | 30 000        | 3 000                            |

**Number and value of equity securities or options on equity securities held by all executives and directors and by employees, and disclosures on any employee participation schemes**

none

**Disclosure of amounts due from / to related parties**

| in CHF 1 000                                  | Amounts due from |            | Amounts due to |            |
|---|------------------|------------|----------------|------------|
|   | 31.12.2016       | 31.12.2015 | 31.12.2016     | 31.12.2015 |
| Significant shareholders                      | 5 185            | 4 426      |                |            |
| Group companies                               |                  |            |                |            |
| Linked companies                              | 14 120           | 49 373     | 120            | 124        |
| Transactions with members of governing bodies | 533              | 1 387      | 1 071          | 474        |
| Other related parties                         | 332              | 158        | 1 668          | 3 090      |

Where members of governing bodies are significant shareholders, they are reported under transactions with members of governing bodies. Ordinary banking transactions are conducted on the terms applicable for employees.

### Holders of significant participations and groups of holders of participations with pooled voting rights

| in CHF 1 000                | 2016    |             | 2015    |             |
|-----------------------------|---------|-------------|---------|-------------|
|                             | Nominal | % of equity | Nominal | % of equity |
| Maerki Baumann Holding AG * | 3 000   | 100%        | 3 000   | 100%        |

\* Held by Raymonde Syz-Abegg, Gutenswil (43.6%) and CHSZ-Holding AG, Zurich\*\* (51.3%)

\*\* Held by Dr. Carole Schmiel-Syz, Erlenbach (50%) and Hans G. Syz-Witmer, Künsnacht (50%)

### Disclosure of own shares and composition of equity capital

| in CHF 1 000                    | 31.12.2016 | 31.12.2015 |
|---------------------------------|------------|------------|
| Number of own registered shares |            |            |

#### Details on different categories of the share capital

|                              |               |               |
|------------------------------|---------------|---------------|
| Registered shares            |               |               |
| Quantity in number of shares | 30 000        | 30 000        |
| Nominal in CHF               | 100           | 100           |
| Paid in                      | 100%          | 100%          |
| Rights and restrictions      | none          | none          |
| Bank's capital               | 3 000         | 3 000         |
| Voluntary reserves           | 28 269        | 28 363        |
| Statutory reserves           | 18 797        | 18 650        |
| <b>Total equity capital</b>  | <b>50 066</b> | <b>50 013</b> |
| non-distributable reserves   | 27 629        | 29 745        |

Distributions out of statutory profit reserves and statutory capital reserves are only permitted if, taken together, they exceed 50% of the nominal share capital. Under company law, CHF 1.5 million is therefore not eligible for distribution. Moreover, the regulatory minimum capital requirements have to be taken into account. These further restrict the scope for profit distributions.

## Presentation of the maturity structure of financial instruments

| in CHF 1 000  |                |               |                 |                       |                             |               | Due            | Total |
|---|----------------|---------------|-----------------|-----------------------|-----------------------------|---------------|----------------|-------|
|   | At sight       | Cancellable   | Within 3 months | Within 3 to 12 months | Within 12 months to 5 years | After 5 years |                |       |
| <b>Assets / financial instruments</b>                           |                |               |                 |                       |                             |               |                |       |
| Liquid assets   | 144 615        |               |                 |                       |                             |               | 144 615        |       |
| Amounts due from banks  | 25 296         |               | 32 271          | 52 537                |                             |               | 110 104        |       |
| Amounts due from securities financing transactions              |                |               |                 |                       |                             |               |                |       |
| Amounts due from customers                                      |                | 15 609        | 31 575          | 11 024                | 936                         |               | 59 145         |       |
| Mortgage loans  |                | 28 282        | 450             | 3 600                 | 14 025                      | 14 215        | 60 572         |       |
| Trading portfolio assets  |                |               |                 |                       |                             |               |                |       |
| Positive replacement values of derivative financial instruments |                |               | 1 767           | 338                   |                             |               | 2 105          |       |
| Other financial instruments at fair value                       |                |               |                 |                       |                             |               |                |       |
| Financial investments   | 3 875          |               | 17 187          | 16 176                | 155 261                     | 62 110        | 254 610        |       |
| <b>Total 2016</b>   | <b>173 787</b> | <b>43 891</b> | <b>83 250</b>   | <b>83 675</b>         | <b>170 222</b>              | <b>76 325</b> | <b>631 151</b> |       |
| Total 2015  | 212 421        | 42 771        | 129 383         | 85 361                | 80 025                      | 139 055       | 689 015        |       |
| <b>Debt capital / financial instruments</b>                     |                |               |                 |                       |                             |               |                |       |
| Amounts due to banks  | 4 406          |               |                 |                       |                             |               | 4 406          |       |
| Liabilities from securities financing transactions              |                |               |                 |                       |                             |               |                |       |
| Amounts due in respect of customer deposits                     | 590 379        |               |                 |                       |                             |               | 590 379        |       |
| Trading portfolio liabilities                                   |                |               |                 |                       |                             |               |                |       |
| Negative replacement values of derivative financial instruments |                |               | 2 026           | 329                   |                             |               | 2 355          |       |
| Liabilities from other financial instruments at fair value      |                |               |                 |                       |                             |               |                |       |
| Cash bonds  |                |               |                 |                       |                             |               |                |       |
| Bond issues and central mortgage institution loans              |                |               |                 |                       |                             |               |                |       |
| <b>Total 2016</b>   | <b>594 785</b> |               | <b>2 026</b>    | <b>329</b>            |                             |               | <b>597 140</b> |       |
| Total 2015  | 656 845        |               | 612             | 403                   | 534                         |               | 658 394        |       |

**Presentation of assets and liabilities by domestic and foreign origin**

| in CHF 1 000  | 31.12.2016     |                | 31.12.2015     |                |
|---|----------------|----------------|----------------|----------------|
|   | Domestic       | Foreign        | Domestic       | Foreign        |
| <b>Assets</b>   |                |                |                |                |
| Liquid assets   | 143 095        | 1 520          | 156 767        | 130            |
| Amounts due from banks  | 25 297         | 84 808         | 60 519         | 141 277        |
| Amounts due from securities financing transactions              |                |                |                |                |
| Amounts due from customers                                      | 37 193         | 21 952         | 33 342         | 21 660         |
| Mortgage loans  | 60 572         |                | 59 281         |                |
| Trading portfolio assets  |                |                |                |                |
| Positive replacement values of derivative financial instruments | 1 724          | 381            | 1 297          | 351            |
| Other financial instruments at fair value                       |                |                |                |                |
| Financial investments   | 57 265         | 197 345        | 58 620         | 155 773        |
| Accrued income and prepaid expenses                             | 7 991          |                | 7 845          |                |
| Participations  | 3 844          |                | 3 435          |                |
| Tangible fixed assets   | 15 286         |                | 15 933         |                |
| Intangible assets   |                |                |                |                |
| Other assets  | 2 558          |                | 2 360          |                |
| Capital not paid in   |                |                |                |                |
| <b>Total assets</b>   | <b>354 825</b> | <b>306 006</b> | <b>399 399</b> | <b>319 190</b> |

**Presentation of assets and liabilities by domestic and foreign origin**

| in CHF 1 000  | 31.12.2016     |                | 31.12.2015     |                |
|---|----------------|----------------|----------------|----------------|
|   | Domestic       | Foreign        | Domestic       | Foreign        |
| <b>Liabilities</b>  |                |                |                |                |
| Amounts due to banks  | 4 406          |                | 145            |                |
| Liabilities from securities financing transactions              |                |                |                |                |
| Amounts due in respect of customer deposits                     | 258 250        | 332 129        | 278 622        | 378 079        |
| Trading portfolio liabilities                                   |                |                |                |                |
| Negative replacement values of derivative financial instruments | 2 312          | 43             | 1 312          | 237            |
| Liabilities from other financial instruments at fair value      |                |                |                |                |
| Cash bonds  |                |                |                |                |
| Bond issues and central mortgage institution loans              |                |                |                |                |
| Accrued expenses and deferred income                            | 6 045          |                | 5 163          |                |
| Other liabilities   | 1 407          |                | 1 744          |                |
| Provisions  | 6 174          |                | 3 276          |                |
| Reserves for general banking risks                              | 13 697         |                | 15 867         |                |
| Share capital   | 3 000          |                | 3 000          |                |
| Statutory capital reserve                                       | 147            |                |                |                |
| of which tax-exempt capital contribution reserve                | 147            |                |                |                |
| Statutory retained earnings reserve                             | 18 650         |                | 18 650         |                |
| Voluntary retained earnings reserves                            | 8 800          |                | 8 800          |                |
| Own shares (negative item)                                      |                |                |                |                |
| Profit carried forward  | 3 696          |                | 2 683          |                |
| Profit  | 2 076          |                | 1 013          |                |
| <b>Total liabilities</b>  | <b>328 660</b> | <b>332 172</b> | <b>340 274</b> | <b>378 315</b> |

### Breakdown of total assets by country or group of countries

| in CHF 1 000                        | 31.12.2016     |               | 31.12.2015     |               |
|-------------------------------------|----------------|---------------|----------------|---------------|
|                                     | CHF 1 000      | %             | CHF 1 000      | %             |
| <b>Assets</b>                       |                |               |                |               |
| Europe                              | 215 160        | 32.6%         | 258 930        | 36.0%         |
| Other countries                     | 90 846         | 13.7%         | 60 260         | 8.4%          |
| <b>Total foreign country assets</b> | <b>306 006</b> | <b>46.3%</b>  | <b>319 190</b> | <b>44.4%</b>  |
| Switzerland                         | 354 825        | 53.7%         | 399 399        | 55.6%         |
| <b>Total assets</b>                 | <b>660 832</b> | <b>100.0%</b> | <b>718 589</b> | <b>100.0%</b> |

### Breakdown of total assets by credit rating of country groups (risk domicile / net foreign exposure)

| in CHF 1 000                           | 31.12.2016     |               | 31.12.2015     |               |
|--|----------------|---------------|----------------|---------------|
|  | CHF 1 000      | %             | CHF 1 000      | %             |
| <b>Standard &amp; Poor's (S&amp;P)</b> |                |               |                |               |
| AAA to AA-                             | 126 444        | 41.3%         | 297 531        | 93.2%         |
| A+ to A-                               | 127 319        | 41.6%         |                |               |
| BBB+ to BBB-                           | 28 084         | 9.2%          |                |               |
| no rating                              | 2 207          | 0.7%          |                |               |
| Lombard loans *                        | 21 952         | 7.2%          | 21 660         | 6.8%          |
| <b>Total assets</b>                    | <b>306 006</b> | <b>100.0%</b> | <b>319 190</b> | <b>100.0%</b> |

\*A clear breakdown by risk domicile is not possible. However, the collateral is broadly diversified.

## Balance sheet by currencies

| in CHF 1 000  | CHF            | EUR            | USD            | Other         |
|---|----------------|----------------|----------------|---------------|
| <b>Assets</b>   |                |                |                |               |
| Liquid assets   | 141 923        | 2 571          | 85             | 36            |
| Amounts due from banks  | 933            | 13 081         | 61 148         | 34 943        |
| Amounts due from securities financing transactions              |                |                |                |               |
| Amounts due from customers                                      | 37 866         | 16 227         | 3 450          | 1 602         |
| Mortgage loans  | 60 572         |                |                |               |
| Trading portfolio assets  |                |                |                |               |
| Positive replacement values of derivative financial instruments | 974            | 178            | 953            |               |
| Other financial instruments at fair value                       |                |                |                |               |
| Financial investments   | 113 656        | 105 349        | 35 606         |               |
| Accrued income and prepaid expenses                             | 7 991          |                |                |               |
| Participations  | 3 826          | 18             |                |               |
| Tangible fixed assets   | 15 286         |                |                |               |
| Intangible assets   |                |                |                |               |
| Other assets  | 2 558          |                |                |               |
| Capital not paid in   |                |                |                |               |
| <b>Total assets shown in balance sheet</b>                      | <b>385 585</b> | <b>137 424</b> | <b>101 242</b> | <b>36 581</b> |
| Delivery claims on forward transactions                         | 36 245         | 71 261         | 18 386         | 1 016         |
| <b>Total assets</b>   | <b>421 830</b> | <b>208 685</b> | <b>119 628</b> | <b>37 597</b> |

## Balance sheet by currencies

| in CHF 1 000  | CHF            | EUR            | USD            | Other         |
|---|----------------|----------------|----------------|---------------|
| <b>Liabilities</b>  |                |                |                |               |
| Amounts due to banks  | 396            | 1 540          | 2 470          |               |
| Liabilities from securities financing transactions              |                |                |                |               |
| Amounts due in respect of customer deposits                     | 286 285        | 185 855        | 81 953         | 36 286        |
| Trading portfolio liabilities                                   |                |                |                |               |
| Negative replacement values of derivative financial instruments | 1 223          | 178            | 954            |               |
| Liabilities from other financial instruments at fair value      |                |                |                |               |
| Cash bonds  |                |                |                |               |
| Bond issues and central mortgage institution loans              |                |                |                |               |
| Accrued expenses and deferred income                            | 6 045          |                |                |               |
| Other liabilities   | 1 399          | 7              | 1              |               |
| Provisions  | 2 283          | 2 146          | 1 745          |               |
| Reserves for general banking risks                              | 13 697         |                |                |               |
| Share capital   | 3 000          |                |                |               |
| Statutory capital reserve                                       | 147            |                |                |               |
| of which tax-exempt capital contribution reserve                | 147            |                |                |               |
| Statutory retained earnings reserve                             | 18 650         |                |                |               |
| Voluntary retained earnings reserves                            | 8 800          |                |                |               |
| Own shares (negative item)                                      |                |                |                |               |
| Profit carried forward  | 3 696          |                |                |               |
| Profit (result of the period)                                   | 2 076          |                |                |               |
| <b>Total liabilities shown in the balance sheet</b>             | <b>347 697</b> | <b>189 726</b> | <b>87 123</b>  | <b>36 286</b> |
| Delivery liabilities on forward transactions                    | 74 774         | 18 208         | 31 470         | 1 091         |
| <b>Total liabilities</b>  | <b>422 471</b> | <b>207 934</b> | <b>118 593</b> | <b>37 377</b> |
| <b>Net position per currency</b>                                | <b>-641</b>    | <b>751</b>     | <b>1 035</b>   | <b>220</b>    |

## INFORMATION ON OFF-BALANCE-SHEET BUSINESS

### Breakdown of contingent liabilities and contingent assets

| in CHF 1 000  | 31.12.2016   | 31.12.2015   | Change        |
|---|--------------|--------------|---------------|
| Guarantees to secure credits and similar                  | 4 111        | 4 240        | -129          |
| Performance guarantees and similar                        |              |              |               |
| Other contingent liabilities                              |              |              |               |
| <b>Total contingent liabilities</b>                       | <b>4 111</b> | <b>4 240</b> | <b>-129</b>   |
| Contingent assets arising from tax losses carried forward | 4 780        | 6 356        | -1 576        |
| Other contingent assets                                   |              |              |               |
| <b>Total contingent assets</b>                            | <b>4 780</b> | <b>6 356</b> | <b>-1 576</b> |

### Breakdown of credit commitments

none

### Breakdown of fiduciary transactions

| in CHF 1 000  | 31.12.2016    | 31.12.2015    | Change         |
|---|---------------|---------------|----------------|
| Fiduciary investments with third-party companies                | 20 999        | 52 316        | -31 317        |
| Fiduciary investments with group companies and linked companies |               |               |                |
| Fiduciary loans and other fiduciary transactions                |               |               |                |
| <b>Total fiduciary transactions</b>                             | <b>20 999</b> | <b>52 316</b> | <b>-31 317</b> |

## Breakdown of managed assets

| in CHF million  | 31.12.2016   | 31.12.2015   | Change      |
|---|--------------|--------------|-------------|
| Assets in collective investment schemes managed by the bank           |              |              |             |
| Assets under discretionary asset management agreements                | 4 420        | 3 985        | 435         |
| Other managed assets  | 2 876        | 2 906        | -30         |
| <b>Total managed assets (including double counting)</b>               | <b>7 296</b> | <b>6 891</b> | <b>405</b>  |
| of which double counting  |              |              |             |
| <b>Total managed assets (including double counting) at beginning</b>  | <b>6 891</b> | <b>7 119</b> | <b>-228</b> |
| Net new money inflow or net new money outflow                         | 60           | -258         | 318         |
| Price gains / losses, interest, dividends and currency gains / losses | 345          | 30           | 315         |
| Other effects   |              |              |             |
| <b>Total managed assets (including double counting) at end</b>        | <b>7 296</b> | <b>6 891</b> | <b>405</b>  |

Total client assets include assets associated with the processing of investment-related transactions. Own shares are also included in this item, as they are not treated as client assets held exclusively for safe deposit purposes. Client assets held exclusively for safe deposit purposes are not included in total client assets. Assets managed by the bank under a discretionary mandate may be held in custody accounts at other banks. Assets with a discretionary mandate are those client assets where investment decisions are made by the bank. Other assets under management are those assets where investment decisions are made by the client. In the year under review, no reclassification was undertaken from or into this category.

Net asset flow is comprised of the net result of the inflow and outflow of client monies and assets held in custody accounts at the current value at the time of the relevant transaction. Interest, charges and fees credited or charged to customers by the bank are not included in net asset flow.

## INFORMATION ON THE INCOME STATEMENT

### Net trading income

| in CHF 1 000                    | 2016         | 2015         | Change      |
|---------------------------------|--------------|--------------|-------------|
| Interest rate instruments       | -29          |              | -29         |
| Equity securities               |              | 1            | -1          |
| Foreign currencies              | 2 130        | 2 622        | -492        |
| Commodities / precious metals   | 10           | 10           |             |
| <b>Total net trading income</b> | <b>2 111</b> | <b>2 633</b> | <b>-522</b> |

The bank does not engage in trading for its own account. The net trading income was generated mainly with private clients.

### Disclosure of material refinancing income in the item interest and discount income as well as material negative interest

| in CHF 1 000   | 2016 | 2015 | Change |
|--|------|------|--------|
| Negative interest in lending business<br>(reduction in interest and discount income) | 59   | 289  | -230   |

### Personnel expenses

| in CHF 1 000  | 2016          | 2015          | Change        |
|---|---------------|---------------|---------------|
| Salaries  | 18 124        | 19 563        | -1 439        |
| Social insurance benefits   | 3 246         | 3 316         | -70           |
| Changes in book value for economic benefits and obligations<br>arising from pension schemes |               |               |               |
| Other personnel expenses  | 90            | 142           | -52           |
| <b>Total personnel expenses</b>   | <b>21 460</b> | <b>23 021</b> | <b>-1 561</b> |

### Other operating expenses

| in CHF 1 000   | 2016          | 2015          | Change      |
|--|---------------|---------------|-------------|
| Office space expenses  | 747           | 835           | -87         |
| Expenses for information and communications technology         | 1 464         | 1 701         | -237        |
| Expenses for vehicles, equipment, furniture and other fixtures | 226           | 258           | -32         |
| Fees of audit firm   | 229           | 182           | 47          |
| of which for financial and regulatory audits                   | 229           | 182           | 47          |
| of which for other services                                    |               |               |             |
| Other operating expenses                                       | 7 518         | 7 754         | -236        |
| <b>Total other operating expenses</b>                          | <b>10 184</b> | <b>10 729</b> | <b>-545</b> |

### Explanations regarding material losses, extraordinary income and expenses and material releases of hidden reserves, reserves for general banking risks and valuation adjustments and provisions no longer required

Compensations of CHF 1.63 million incurred in connection with the US tax settlement were charged to a client and booked as extraordinary income. This income was also recognised under value adjustments and provisions, as the client has filed a complaint against the bank.

### Disclosure and reasons for revaluation of participations and tangible fixed assets up to the acquisition cost

none

#### Current and deferred taxes / disclosure of the tax rate

| in CHF 1 000       | 2016      | 2015      | Change   |
|--------------------|-----------|-----------|----------|
| Current taxes      | 95        | 87        | 8        |
| Deferred taxes     |           |           |          |
| <b>Total taxes</b> | <b>95</b> | <b>87</b> | <b>8</b> |
| Tax rate           | n/a       | n/a       |          |

Owing to the release of taxed reserves for general banking risks, there is a gross tax-deductible loss carryforward of CHF 7.51 million.

Because of the tax-deductible loss carryforward, no income tax is due on the reported profit. Factoring this out, the tax rate would be 21.5%.

## INFORMATION ON EQUITY CAPITAL

### Eligible and regulatory capital

| in CHF 1 000   | 31.12.2016                              | 31.12.2015    |               |
|--|---|---------------|---------------|
| <b>Eligible Capital</b>  |   |               |               |
| Common equity Tier 1 capital (CET1)  | 50 066                                  | 48 999        |               |
| Additional Tier 1 capital  |   |               |               |
| Tier 1 capital   |   |               |               |
| Tier 2 capital   |   |               |               |
| <b>Total eligible capital</b>  | <b>50 066</b>                           | <b>48 999</b> |               |
| <b>Required Capital</b>  |   |               |               |
|  | <b>Approach used</b>                    |               |               |
| Credit risk  | International BIS SA-CCR, comprehensive | 17 143        | 17 349        |
| Non-counterparty-related risks   | International BIS SA-CCR, comprehensive | 1 223         | 1 275         |
| Market risk  | Market risk standard approach           | 268           | 164           |
| Operational risk   | Basic indicator approach                | 4 388         | 4 313         |
| <b>Total minimum required capital</b>  |   | <b>23 022</b> | <b>23 101</b> |
| Countercyclical capital buffer   |   | 415           | 403           |
| Sum of risk weighted positions   |   | 287 775       | 288 763       |
| Countercyclical capital buffer in relation to the sum of risk weighted positions     |   | 0.1%          | 0.1%          |
| <b>Capital Ratios</b>  |   |               |               |
| Common equity Tier 1 capital ratio (CET1 ratio)                                      |   | 17.4%         | 17.0%         |
| Tier 1 capital ratio   |   | 17.4%         | 17.0%         |
| Ratio of regulatory capital (Tier 1 & Tier 2) without countercyclical capital buffer |   | 17.4%         | 17.0%         |
| Ratio of regulatory capital (Tier 1 & Tier 2) with countercyclical capital buffer    |   | 17.3%         | 16.8%         |

## Eligible and regulatory capital

| in CHF 1 000   | 31.12.2016   | 31.12.2015   |
|--|--------------|--------------|
| <b>CET1 requirements (according to BIS required minimum standards)</b> |              |              |
| Minimum requirement  | 4.5%         | 4.5%         |
| Capital buffer   | 0.6%         | 0.0%         |
| Countercyclical capital buffer   | 0.1%         | 0.1%         |
| Total CET1 requirements (according to BIS required minimum standards)  | 5.3%         | 4.6%         |
| <b>CET1 available after deduction of AT1 and Tier 2 requirements</b>   | <b>13.9%</b> | <b>13.5%</b> |
| <b>CET1 requirements (according to ERV)</b>                            |              |              |
| Defined target of category 5 bank (previous year category 4 bank)      | 7.0%         | 7.4%         |
| Countercyclical capital buffer   | 0.1%         | 0.1%         |
| Total CET1 requirements (according to ERV)                             | 7.1%         | 7.5%         |
| <b>CET1 available</b>  | <b>13.9%</b> | <b>13.5%</b> |
| <b>T1 requirements (according to ERV)</b>                              |              |              |
| Defined target of category 5 bank (previous year category 4 bank)      | 8.5%         | 9.1%         |
| Countercyclical capital buffer   | 0.1%         | 0.1%         |
| Total T1 requirements (according to ERV)                               | 8.6%         | 9.2%         |
| <b>Tier 1 available</b>  | <b>15.4%</b> | <b>15.0%</b> |
| <b>Target of regulatory capital (according to ERV)</b>                 |              |              |
| Defined target of category 5 bank (previous year category 4 bank)      | 10.5%        | 11.2%        |
| Countercyclical capital buffer   | 0.1%         | 0.1%         |
| Total target of regulatory capital (according to ERV)                  | 10.6%        | 11.3%        |
| <b>Regulatory capital available</b>                                    | <b>17.4%</b> | <b>17.0%</b> |

### Leverage ratio

| in CHF 1 000                             | 31.12.2016 | 31.12.2015 |
|--|------------|------------|
| Tier 1 capital                           | 50 066     | 48 999     |
| Total liabilities for the leverage ratio | 671 542    | 725 488    |
| Leverage ratio                           | 7.5%       | 6.8%       |

### Information on the liquidity coverage ratio (LCR)

| in CHF 1 000                                      | 2016    | 2015    |
|---|---------|---------|
| <b>Total of High Quality Liquid Assets (HQLA)</b> |         |         |
| Average Q1  | 193 782 | 219 820 |
| Average Q2  | 193 351 | 259 180 |
| Average Q3  | 196 314 | 249 099 |
| Average Q4  | 185 004 | 214 237 |
| <b>Total net cash outflows</b>                    |         |         |
| Average Q1  | 85 775  | 53 234  |
| Average Q2  | 84 532  | 53 095  |
| Average Q3  | 78 894  | 53 519  |
| Average Q4  | 80 457  | 45 527  |
| <b>Liquidity coverage ratio (LCR)</b>             |         |         |
| Average Q1  | 225.9%  | 412.9%  |
| Average Q2  | 228.7%  | 488.1%  |
| Average Q3  | 248.8%  | 465.4%  |
| Average Q4  | 229.9%  | 470.6%  |

AUDITORS' REPORT



## ***Report of the statutory auditor to the General Meeting of Maerki Baumann & Co. AG Zürich***

### ***Report of the statutory auditor on the financial statements***

As statutory auditor, we have audited the financial statements of Maerki Baumann & Co. AG, which comprise the balance sheet, income statement, statement of changes in equity and notes (pages 28 to 62), for the year ended 31 December 2016.

#### ***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 2016 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 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 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.

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PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.



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.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Romer'.

Thomas Romer  
Audit expert  
Auditor in charge

A handwritten signature in black ink, appearing to read 'Buchmann'.

Lars Buchmann  
Audit expert

Zürich, 3 April 2017

## CONTACT DETAILS

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