

Schroder & Co Bank AG

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Schroder & Co Bank AG
Annual Report 2001

2001

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dedicated to your objectives

Everything at Schroders Switzerland is built upon one word – relationship. The relationship you have with your work, objectives and life goals, the relationship your money has with the markets, and the relationship you have with us.

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Board of Directors, Board of Management and Senior Management

Board of Directors: George W. Mallinckrodt KBE (Chairman),
Andrew F. Sykes (Deputy Chairman), Dr. François Bochud,
Mike Bussey¹, Dr. Martin K. Eckert, Peter P. Hügler, Dr. Raoul Imseng,
Dr. Hans Jochen Mackenrodt².

Board of Management: Peter von Elten (Chairman),
Luc Denis (Deputy Chairman), Stephen J. Mills,
Heinz Scheiwiler, Bruno Schmidt.

Senior Management: Otto J. Amberg, Michael Brehmer, Norbert Brestel,
Pierre Antoine Carron, Iain K. Cornes, Jehan-Christophe de La Haye
Saint Hilaire, Geoffroy de Saint Périer, Reto Dietrich, Markus Engeler,
Slavica J. Barovic Esnault-Pelterie, Pierre-Louis Favre, Rolf Fischer,
Stefan Frischknecht, René Fuchs, Jean-Jacques Hunziker,
Jürg Klingler, Richard M. Lang, Bernhard H. Leibkutsch,
Gerhard Mailänder, Gordon F. Matthew, Werner Niedermann,
Stephan Ochsner, Christian Schmid, Roland Staub, Rolf Steimer,
Dino Teitler, Eric C. Thelwell, Ulysse-Oliver Traub, Christian Trixl,
Tomas S.J. Urban, Patrik von Moos, Marcel Wäspi, Urs Winiger,
Antonio Winspeare Guiccardi.

Compliance and Internal Audit: Jean-Jacques Hunziker.

External Auditors: PricewaterhouseCoopers AG, Zürich.

¹ since 11.2.2002

² until 31.12.2001

Our Services

Independent

International

Specialised

- Asset Management for Private and Institutional Clients
- Portfolio Management
- Advisory Services
- Custody Services
- Mutual Funds
- Trusts
- Foundations
- Loans and Credit Facilities
- Fiduciary Transactions
- Art Advisory Services
- Alternative Investments

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Report from the Chairman of the Board

The year 2001 was overshadowed by the devastating terrorist attacks against the United States on September 11. Our sympathy goes to the families to whom these terrible events have brought suffering and bereavement.

The broad alliance of solidarity throughout the international community in face of this terror, the successes already achieved in combating the forces of terrorism and the increasing willingness to tackle its root causes give us hope and encouragement for the future.

In an extremely difficult year for the financial services industry in general, Schroder & Co Bank AG Switzerland maintained its position and posted results that were less than 10% lower than the previous year's very good figures. The concentration of our activities in Switzerland in three core areas – Private Banking, Institutional Asset Management & Fund Management and Fund Distribution – has proved a sound strategy. In addition, the extension and strong record of the Schroder product range in the alternative investment segment – Hedge Funds, Private Equity, Real Estate – contributed to an improvement in our investment performance.

We are confident that investments in new information systems approved in 2001 and the reinforcement of our client relationship management teams will further strengthen our business base.

Profit allocation

For the financial year 2001, our bank's profit and loss account showed a net profit of CHF 15'020'310 (2000: CHF 16'122'797). Including a balance carried forward of CHF 131'594, profit available for distribution by the Annual General Meeting totals CHF 15'151'904.



George W. Mallinckrodt KBE
Chairman of the Board of Directors

Report from the Chairman of the Board

The Board of Directors proposes that profit be allocated as follows:

CHF	
1'250'000	Allocation to the general statutory reserve
13'800'000	Allocation to other reserves
101'904	Balance carried forward
15'151'904	

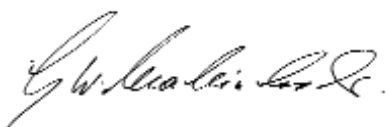
The Board of Directors also proposes payment of

an ordinary dividend of	CHF 8'000'000
a special dividend of	CHF 5'500'000

for the financial year 2001.

After payment of dividends at the end of 2001, the bank's equity capital amounted to CHF 69.8 million plus CHF 18 million in reserves for general banking risks. Excluding untaxed internal reserves, reported equity capital and reserves thus rose by CHF 1.5 million against the previous year.

On behalf of the Board of Directors, I would like to thank all our clients for their continued trust in a difficult market environment. My thanks also go to our employees for their valuable contribution to our success and for their loyalty throughout the year 2001.



George W. Mallinckrodt KBE
Chairman of the Board of Directors



Despite the difficult market environment, we achieved a net profit of CHF 15 million in 2001, which was not significantly lower than the good results of the previous year. Given the general conditions in the markets and the further growth of competitive pressures, we are satisfied with the results.

The economic environment in 2001

The simultaneous downturn in the world's leading economies, the USA, Japan and Germany, accelerated over the course of the year. After the dramatic events of 11 September at the latest, recession set in, despite substantial cuts in interest rates coupled with generous supplies of liquidity in all the major markets. On this occasion, the slide into recession was not precipitated, as is usually the case, by consumers' increasing reluctance to spend money but by a sharp reduction in business investment by industry, which was suffering from excess capacity and high inventory levels. A decisive factor underlying this contraction in investment was the collapse of the technology sector which, after a phase of rapid growth, saw a sharp fall-off in orders. Many, especially fledgling, technology companies which had been banking on a massive explosion of Internet and e-commerce applications, were forced to revise their business models and started disappearing from the market in droves. The ebbing enthusiasm for new technologies and their boundless possibilities was also reflected in share valuations, which

underwent sharp corrections in the course of 2001. The global share index expressed in local currency declined by some 15% over the year.

Private Banking

The contraction in assets under management caused by the plunge in equity markets was more than offset by new business. However, the expansion of our service offerings, increased advisory activity and investments in new information systems, paired with plummeting transaction levels, led to significantly lower results in Private Banking. Despite this, we remain confident that the investments in the extension of our product range and in new systems in 2001 will have positive effects in the years ahead.

We provide our Private Banking clients with a comprehensive spectrum of banking services, focused on asset management and advice



Peter von Elten, Chairman

Management Report

and complemented by commercial banking services. Last year, we made increased use of alternative investments in the form of individual hedge funds or funds of funds, investments in unlisted companies and in securitised real estate. As these products have only a weak correlation with traditional equity and fixed-income products, they helped to stabilise our investment performance.

Providing support and advice for families and their personal businesses while working closely with their advisors is becoming an increasingly important element of our activity. These services include the integrated analysis of all assets, advice on the optimal structuring of assets to take account of tax and legal aspects, and assistance with succession planning. These services are provided on a supranational basis in cooperation with our parent bank in London and other branches of the Schroder Group.

Our range of services is available to all our clients, whether they have discretionary management or advisory mandates with us, or whether they structure their portfolios independently through a securities account under our custody.



Luc Denis, Deputy Chairman

SIM (Switzerland)

Our institutional investment management and fund sales division (SIM Switzerland) enjoyed another year of robust growth both in terms of profits and business flows.

The activities of the division can be subdivided into three parts or functions: fund management, marketing to and servicing Swiss institutional clients, and distributing Schroders' range of Luxembourg-domiciled SICAV funds to Swiss banks and financial institutions (retail).

Fund management

Our Swiss-based team of fund managers and analysts is responsible for the management of Swiss equity and balanced portfolios. The team draws on the extensive global research

of the Schroder group as well as its own local research efforts: more than 300 company visits are undertaken in Switzerland per annum. The strong performance of our Swiss equity fund – which is top ranked over three and five years – has attracted considerable attention amongst retail, private and institutional clients. During the year, we won new Swiss and balanced mandates from both private and public pension funds.

Institutional marketing

Schroders' global research and fund management capabilities are made fully available to our institutional clients. Working together with a wide range of pension funds as well as local and international consultants, we manage country, regional, global and balanced mandates both on a segregated and unitised basis.



Clients benefit from a dedicated service tailored to their specific needs. For example, this might involve a Swiss management contract, a custody agreement with Schroder & Co Bank AG, Zurich and portfolio management provided by a specialist team at Schrodgers, London.

Distribution of mutual funds (Retail)

Our mutual fund sales business saw strong net inflows. Banks and other financial institutions in Switzerland have increasingly adopted a „best in class“ approach to the selection of funds for their clients. We benefited from this trend having signed distribution agreements with almost all major Swiss-based banks and fund distributors. Our sales efforts were further underpinned by the strong investment performance of key mutual funds for the Swiss market.

Banking

In commercial banking, volume and income were slightly lower overall. Commission income from guarantees, documentary credits and fiduciary loans rose, but interest income from loans was down against the previous year. The difficult market environment depressed the volume of collateral loans.

Money market and forex trading

Since the separation from Investment Banking in 2000, our trading operations in financial products are conducted exclusively on behalf of and in the interests of our clients. Lower interest rates and a decline in forex trading activity due to the introduction of the single European currency coupled with the fall in transaction frequency combined to push down this result.

Our Cash Management services, which comprise fiduciary business and foreign currency advisory services, including currency hedging via forward contracts or option structures, or through strategic positioning in important currency areas, were important pillars of our asset management services last year.

Finance and administration

We have covered the increasing needs of our clients, business partners and official bodies for accurate and detailed information by expanding single data systems. Following intensive evaluation throughout the year 2001, we decided to substitute our present EDP system, which had been in use over the past 12 years, with a new future oriented IT-solution. The extensive work involved and investments for this project will be carried out over the next two years, which will enable us to increase the services provided to our clients.

Subsidiaries/Branches

Our wholly owned subsidiary, Schroder Cayman Bank & Trust Company Limited, offers our customers services in the formation and in the fiduciary management of trusts and foreign domiciled corporations. Schroder Trust AG, Zurich mainly acts as a trustee formed under foreign law. In its capacity as trustee, it is in close contact with the domicile of the trust in question, be it our Cayman subsidiary, other trust entities of the Schroder Group or third parties. It also acts as a corporate member of the Foundation Board in the establishment and management of foundations. Trusts and foundations are frequently used for succession and inheritance planning purposes by our clients.

On behalf of all colleagues, we would like to thank our clients for the trust they have shown to our institution.



Peter von Elten
Chairman



Luc Denis
Deputy Chairman

Balance Sheet

Balance Sheet

as of 31 December 2001

in CHF	Notes	31.12.2001	31.12.2000
Assets			
Cash		16'965'485	22'816'463
Due from banks		116'341'025	143'890'555
Due from customers	3.1	339'910'772	384'950'230
Mortgages	3.1	551'733	663'049
Securities and precious metal trading portfolios	3.2	24'462'000	46'970'241
Financial investments	3.3	314'069	408'750
Participations	3.4, 3.5	1'100'000	1'100'000
Fixed assets	3.6	365'546	377'185
Accrued income and prepaid expenses		6'040'166	9'816'199
Other assets		3'064'873	10'271'237
Total assets		509'115'669	621'263'909
Total due from group entities and significant shareholders		–	396'763
Liabilities and shareholders' equity			
Due to banks		196'752'726	277'619'582
Due to customers, other		164'140'271	181'948'430
Accrued expenses and deferred income		21'272'133	24'889'177
Other liabilities		4'347'224	10'007'811
Valuation adjustments and provisions	3.9	21'301'411	26'017'315
Reserves for general banking risks	3.9	18'000'000	18'000'000
Share capital	3.10, 3.11	20'000'000	20'000'000
General legal reserve	3.11	14'650'000	13'300'000
Other reserves	3.11	33'500'000	33'200'000
Retained earnings brought forward		131'594	158'797
Net income		15'020'310	16'122'797
Total liabilities and shareholders' equity		509'115'669	621'263'909
Total due to group entities and significant shareholders		17'561'078	26'010'064

Off-balance Sheet Transactions

Off-balance Sheet Transactions

as of 31 December 2001

in CHF	Notes	31.12.2001	31.12.2000
Contingent liabilities	3.1, 4.1	89'092'779	59'728'347
Confirmed credits	3.1, 4.2	–	164'040
Commitments	3.1	1'256'250	1'226'250
Derivative instruments	4.3		
– positive replacement values		2'389'656	9'312'227
– negative replacement values		2'376'141	7'881'141
– notional amounts		363'904'077	538'802'132
Fiduciary transactions	4.4		
– Fiduciary placements with third parties		1'686'997'178	1'616'778'867
– Fiduciary credits		92'164'296	76'519'798

Profit and Loss Account

Profit and Loss Account

for the period ending 31 December 2001

in CHF	Notes	Jan.–Dec. 2001	Jan.–Dec. 2000
a) Revenues and expenses from ordinary banking activities			
Results from interest activities			
Interest and discount income		25'401'411	29'335'922
Interest expenses		(12'786'672)	(15'508'911)
Net interest income		12'614'739	13'827'011
Results from commission and service fee activities			
Commission income on lending activities		1'463'914	1'087'440
Commission income on securities and investment transactions		51'338'550	62'135'739
Commission income on other services		481'221	544'192
Commission expenses		(7'385'300)	(11'047'622)
Results from commission and service fee activities		45'898'385	52'719'749
Results from trading operations	5.1	4'840'439	5'501'187
Other ordinary results			
Participation income		2'000'000	1'000'000
Other ordinary expenses		(100'000)	–
Other ordinary results		1'900'000	1'000'000
Operating expenses			
Personnel expenses	5.2	(28'549'661)	(33'601'611)
Other operating expenses	5.3	(14'807'678)	(13'768'059)
Operating expenses		(43'357'339)	(47'369'670)
Gross profit		21'896'224	25'678'277

in CHF	Notes	Jan.–Dec. 2001	Jan.–Dec. 2000
b) Net income			
Gross profit		21'896'224	25'678'277
Depreciation and write-offs of non-current assets	3.6	(133'453)	(132'779)
Valuation adjustments, provisions and losses		(3'115'480)	(6'507'835)
Results before extraordinary items and taxes		18'647'291	19'037'663
Extraordinary income	5.4	40'274	1'592'459
Extraordinary expenses		–	–
Taxes	3.9	(3'667'255)	(4'507'325)
Net income		15'020'310	16'122'797
c) Allocation of retained earnings			
Net income		15'020'310	16'122'797
Retained earnings brought forward		131'594	158'797
Retained earnings at the end of the period		15'151'904	16'281'594
Allocation of retained earnings			
Allocation to general legal reserve		(1'250'000)	(1'350'000)
Allocation to other reserves		(13'800'000)	(14'800'000)
Retained earnings carried forward		101'904	131'594
Distribution of dividend to the debit of the other reserves			
Ordinary dividend		(8'000'000)	(8'500'000)
Special dividend		(5'500'000)	(6'000'000)
Total dividend		(13'500'000)	(14'500'000)