



FALCON PRIVATE BANK

SWISS PRIVATE BANKING

IMPORTANT INFORMATION ABOUT EU TAXATION OF INTEREST INCOME JULY 2008

1. WHAT DOES EU TAXATION OF INTEREST INCOME COVER?

The directive on EU taxation of interest income, which came into force on July 1, 2005, is intended to ensure that **EU taxpayers pay tax on interest generated outside their country of residence.**

The EU has negotiated the introduction of equivalent measures in important European financial centers including Switzerland. The arrangement that has been reached with Switzerland **preserves bank client confidentiality.** Switzerland levies a withholding tax on the relevant interest income. Starting on July 1, 2008 this EU withholding tax is 20% and on July 1, 2011 it will rise to 35%. Clients can avoid this deduction by agreeing to disclose the necessary information to the tax authorities in their country of residence (voluntary disclosure authorization) or they can reclaim the withholding tax if they correctly declare the interest income.

2. WHO IS AFFECTED?

The directive on EU taxation of interest income applies only to clients of the bank who are resident in an EU member state, regardless of their nationality. Legal entities and clients (including EU citizens) who are resident for tax purposes in Switzerland or another country outside the EU are not affected.

3. WHAT TYPES OF INCOME ARE AFFECTED?

The directive applies only to foreign interest income. Foreign interest income is deemed

to be interest paid to a client's account held in Switzerland which is not maintained in the client's country of residence. The currency of the instrument in question and the domicile of the issuer have no impact. Other types of income, such as dividends, are not affected. Furthermore, there are exceptions in respect of certain financial products. Point 6 ("Types of income which are affected/not affected") summarizes the most important regulations.

4. WHAT DO YOU HAVE TO DO?

If you do not want to make a voluntary disclosure, you do not have to complete any documentation. The withholding tax will be automatically deducted from the relevant income on your account. However, if you declare the income in your country of residence, you can reclaim the withholding tax in full from your tax authorities.

If you would like to make a voluntary disclosure, you can authorize the bank to forward information regarding interest income to the tax authorities in your country of residence. In this case we would ask you to contact your client advisor.

5. FURTHER INFORMATION

If you have questions or concerns regarding the available options, or if you require more detailed information about the impact of the directive on your investments, please contact your client advisor at Falcon Private Bank Ltd.

6. TYPES OF INCOME WHICH ARE AFFECTED/NOT AFFECTED

Affected:

Interest income:

Examples of affected income:

- Interest from bonds and notes
- Interest from fiduciary investments
- Accrued interest (e.g. on the sale of bonds)
- Capital gains from zero and discount bonds
- All interest income from investment funds in which bonds and notes exceed defined threshold values

Not affected:

Dividends and other sources of income

Examples of products and types of income which are not affected by EU taxation of interest income:

- Grandfathered bonds and notes which were issued prior to March 1, 2001 and have not been increased since March 1, 2002
- All interest income from investment funds in which bonds and notes do not exceed defined threshold values
- Pension funds
- Life insurance
- Income from Swiss bond debtors and interest on current accounts held at Falcon Private Bank Ltd. However, these are subject to Swiss withholding tax at 35%.
- Dividends and capital gains on shares