Valartis Group
Annual Report 2008

valartisgroup

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Letter to Shareholders

Dear Shareholders

2008 brought us a whole series of perfect storms. The media are full of it, and on a daily basis. And the potential scenarios we presented in the 2008 Half-Year Report not only proved correct, but were actually even more dramatic than anticipated. The global economy has plunged into recession, considerable portions of the banking system have been nationalised, the investment banks – once the standard-bearers of modern capitalism – have been tripped up by their own arrogance and gone under one by one, consumer and investor confidence are at rock-bottom and the stock markets have been in seemingly unstoppable freefall for months.

We, too, have not escaped unscathed. This year's profit for the Valartis shareholders is just over CHF 3.3 million (including minority interests, the Group posted a loss of CHF 4 million). Compared to some of our competitors, we were able to keep the situation under control to some extent, but after a CHF 50 million profit in the previous year, this kind of a decline is painful. In the environment outlined above, it is not hard to imagine that even results on this scale have placed a strain on our employees. There is no need to mention the state of affairs at our big "investment banking brothers", which are now either hiding under government control or have collapsed entirely.

Generally speaking, investment banking will not be what it once was for some years to come. The lesson for us is that we need to gear the Group towards the new environment more radically than before. We have decided to substantially reduce the limits for proprietary trading. Existing capacity has been directed towards offering proficient brokerage and efficient settlement, particularly for the private client segment. In the private asset management business and credit advisory services, on the other hand, we plan to expand and to seize the opportunities that present themselves. We are well positioned to do so, especially since more and more private clients are demanding services that come close to institutional standards. The market trend is towards combining sophisticated investment advice, efficient execution and corporate finance expertise. As dismal as the market climate may be, wealth will always be created, and an increasingly complex (financial) environment will create a growing need for superior advisory services in the areas of investment and financing, as well as competent execution.

Let us take a brief look at a few positions in Valartis's 2008 income statement. As expected, the largest negative contribution related to the trading book, which suffered a loss of CHF 55 million. Commission income came in at around CHF 60 million, which was well below the levels to which we have grown accustomed in recent years. In addition to the market corrections – which automatically reduce assets under management – this was also related to the fact that more and more products have been designed with performance fees in recent years. These automatically trigger a disproportionately large decline in commission income in negative markets.

It is not possible to scale back expenses as fast as the rate at which income declines, even though we acted quickly and radically. Indeed, we had to let some employees go due to structural considerations for the first time in the history of the Group (including the former OZ). However, the impact of such measures will of course not be felt until the current year. Accordingly, administrative expenses still rose by approximately 15% for 2008 as a whole.

The balance sheet for 2008 provides a little more insight into the thrust of the strategic repositioning referred to above. A financial crisis like the one we are experiencing in fact also creates opportunities. You will have read in the media that we succeeded in acquiring the private banking subsidiary of a major Irish bank in Vienna. The bank has about 100 employees and assets under management of CHF 1.6 billion. It is now called Valartis Bank (Austria) AG and has been fully consolidated with effect from 31 December 2008. We believe that our bank subsidiary in Vienna represents an important milestone in our strategic development, and that the combination of our strong corporate finance business in Austria with the new private bank in Vienna opens up an interesting route to a newly emergent middle class in central and eastern Europe.

Needless to say, because of the consolidation of Valartis Bank (Austria) AG, the balance sheet as at end-2008 can no longer be meaningfully compared with that at 31 December 2007. A look at the table in question shows that our total assets have increased by about CHF 1 billion. With an equity ratio of around 20%, our equity base is still very good. This is especially true if we consider that client deposits are for the most part offset by amounts due from banks; in other words we have not taken on a substantial lending portfolio for them.

Another strategic decision that influenced the structure and scope of the income statement and balance sheet was to increase our stake in Eastern Property Holding (EPH), a real estate company active in Russia/CIS for which Valartis Asset Management has been acting as advisor for years. Our position was increased to 20%, which according to our accounting standards (IFRS) meant that the equity method had to be employed with all that that entails (valuation of EPH's assets at their market values). This had an effect on both our balance sheet and income statement, making a comparison with the prior year even more complicated.

So what about the future? Last year, we made more progress towards becoming a diversified financial services provider with fair, transparent and innovative financial products. We want to

offer specialised banking and advisory services to predominantly high net worth private clients and institutional clients and selectively invest our equity in a few value-adding investments.

Of course we need a reasonable market environment. We realise full well that the current crisis will probably take some time to pass and probably still has plenty of news in store that will be hard to digest. But we know from past experience that such situations always create market opportunities too, and that historically they have usually paid off for those who did not get cold feet when the wolves were howling loudest.

Baar, Canton of Zug, 1 April 2009

Erwin W. Heri
Chairman of the Board of Directors

Gustav Stenbolt
Chief Executive Officer

Swiss.

We stand for traditional values.

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Business Activities

Valartis Group

The Valartis Group is a boutique Swiss financial services provider with domiciles in Zurich, Geneva and Vienna, and branches in Moscow, St Petersburg and Luxembourg. It is subject to the consolidated supervision of the Swiss Financial Market Supervisory Authority, FINMA. The Group's holding company, Valartis Group AG, is listed on the SIX Swiss Exchange and is controlled by MCG Holding AG, Baar, through its 50% stake. In its three core activities – Asset Management, Wealth Management and Investment Banking – the Group focuses on developing and managing innovative investment and niche products as well as providing specialised banking services. As at end-2008, the Group had total assets under management of CHF 4.0 billion.

Setting the course in private banking

By acquiring a private bank in Vienna at the end of 2008, which started 2009 under the new name Valartis Bank (Austria) AG, the Group has significantly expanded its wealth management activities while at the same time taking on a new historic dimension. The Viennese bank was founded in 1890 and so boasts a 120-year tradition in private banking. From its beginnings to the present day, its successful business model has centred around an understanding of the importance of long-term client relationships. The bank entered into the asset management business in the late 1990s by acquiring an asset management firm and started to market its own investment funds. Today, Valartis Bank (Austria) AG employs more than 100 staff who serve around 4,000 clients and together with Valartis Asset Management (Austria) Kapitalanlagegesellschaft mbH, its fund subsidiary, manages assets of some CHF 1.6 billion.

The Valartis Group has completed an important strategic step by expanding its Wealth Management segment. The Group's earning power, which was originally concentrated on Asset Management and Investment Banking, is now not only more broadly based, but has also been strengthened by the seizing of new growth opportunities. In addition, as a result of the Group's realignment, the limits for proprietary trading have been substantially reduced. This change was prompted by the conviction that, in the long run, the conservative investment philosophy in private banking, with its focus on capital protection and long-term capital growth, is not compatible with large volatile trading positions in investment banking.

Healthy balance sheet structure

But as the turmoil in the banking sector worldwide has dramatically demonstrated, the long-term development of the (private) client business also demands a balance sheet with a healthy financing structure. The Valartis Group has taken a very conservative approach in this regard, self-financing the majority of its various activities and avoiding excessive leverage. The management of balance sheet risks will continue to follow this cautious approach in future. With the consolidation of Valartis Bank (Austria) AG, the Group reported assets of CHF 1.5 billion as at end-2008. Of this total, some two-thirds are client funds invested

1890 Bankhaus Rosenfeld is established in Vienna, with an emphasis on asset management

[...] After various changes of ownership, the bank is acquired by Canadian Royal Trust Group (later Royal Bank of Canada)

1995 The Vienna-based private bank is acquired by Anglo Irish Bank Corporation plc, Dublin, and renamed Anglo Irish Bank (Austria) AG

1988 OZ Zürich Optionen und Futures Aktiengesellschaft is established

1993 OZ shares are listed on the main stock exchanges of Zurich and Basel

1994 OZ Holding is established

1996 MC Trustco, an asset management company focusing on Russia and eastern Europe, is established

Management of the listed investment company ENR Russia Invest is taken over

1997 OZ Bankers, which operates in the Swiss equities and derivatives market, receives banking licence

short-term with various high-quality domestic and foreign banks. The Group has a strong equity base of CHF 286 million, or about a fifth of total assets.

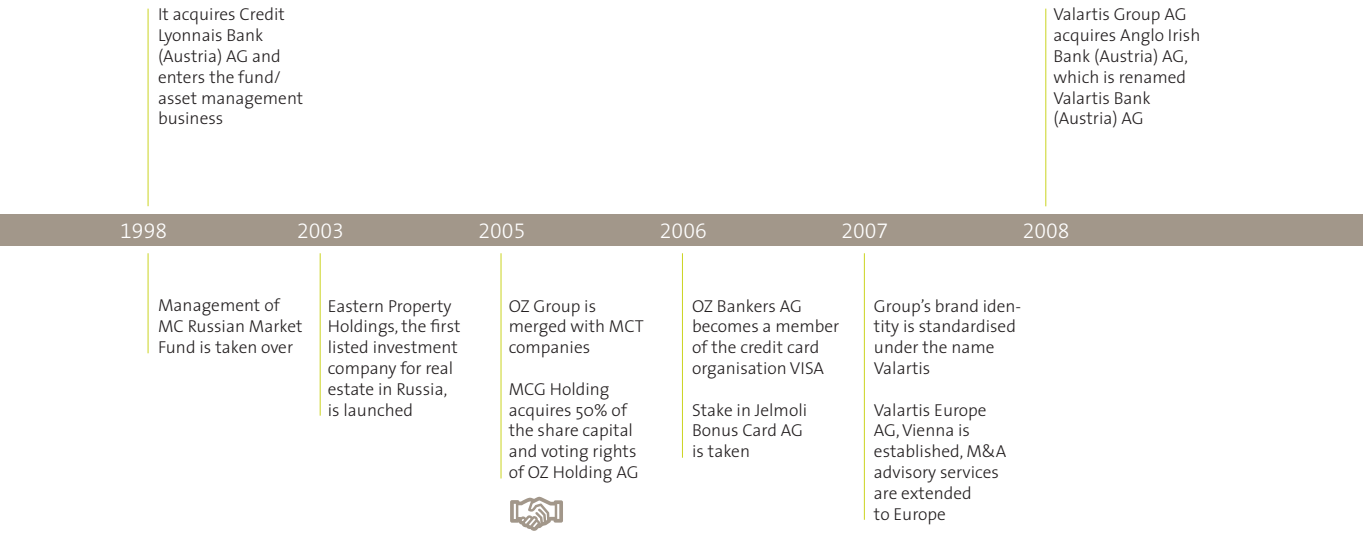
Synergies

These days, wealthy private clients are hardly any different from institutional investors when it comes to their expectations of professionalism in advisory services and in the management of their money. Both for brokerage clients and asset management clients, the only thing that counts is the quality of investment recommendations. Mere brokerage has become commoditised. And wealthy private clients, who tend to have an entrepreneurial background, are also increasingly demanding services in relation to M&A and corporate finance.

Focusing the business model on three core activities will enable the Valartis Group to respond to client needs like these more effectively in the future and take full advantage of opportunities for cooperation within the Group. To name two examples, in the past few years, Valartis Asset Management has launched a variety of specialised regional and sector funds and investment companies. The expertise it has acquired in the process, above all in equities and real estate with an investment focus on eastern Europe and Russia, will also be put to use in Vienna in the future. Conversely, asset management in Switzerland is benefiting from the development and marketing opportunities within the European Union.

In Investment Banking, the Valartis Group has significantly expanded its corporate finance and M&A services in Europe. It is now active in Vienna with 25 employees at Valartis Europe AG, where advisory services primarily concentrate on unlisted medium-sized companies in central and eastern Europe. Corporate finance and M&A advisory are valuable additional services for the Viennese private bank, especially as it has grown particularly rapidly in eastern Europe in recent years and has many entrepreneurs among its clients. At the same time, we are able to recommend a private bank that is fully familiar with the specific features of these countries to clients of Valartis Europe.

The Valartis Group has a responsive organisational structure. Due to its presence in Geneva, Zurich, Vienna, Moscow, St Petersburg and Luxembourg, Valartis is able to bring together an attractive international network of expertise and contacts. This enables the Group to selectively identify and implement investment opportunities for its clients.



Performance in 2008 and outlook for 2009
The Valartis Group develops and manages a range of specialised regional and sector funds and investment companies across multiple asset classes. The extraordinary market turmoil of the past year predominantly affected the equity funds focused on Russia, eastern Europe and Switzerland. Real estate activities fared significantly better. Despite the current difficult market environment, we remain confident regarding 2009. The entire team has worked intensively on the restructuring of individual investment products and has positioned them in such a manner that they will profit from a market recovery over the long term. At the same time, new products have been developed and we have started to broaden our distribution channels. We will also pursue new growth opportunities through our partnership with the recently acquired Valartis Asset Management (Austria) KmbH, Vienna.

Eastern Europe, Russia and CIS
The Russian market imploded with the collapse in commodity prices. MC Russian Market Fund, which is primarily focused on this region, was not able to escape the effects of this environment and lost 77.5% of its value. The slight underperformance of the benchmark (ROS Index: -74.0%) was primarily a result of the fund's high exposure to the small-cap segment. Toward year-end, the portfolio was adjusted to the new market conditions. We are confident that this realignment will enable us to benefit from the likely recovery in these equity markets at an above-average rate.

The MC Premium Eastern European Equity Fund, awarded five stars by Morningstar, fared significantly better, outperforming its benchmark CECE Euro (-53.7%) by more than 10 percentage points. Due to our growing scepticism about certain eastern European countries, we accumulated large cash holdings in the second half of 2008 and held them during the subsequent softening of the market. This means the fund is well positioned to profit from the irrational valuations that exist in these markets.

Switzerland
The Valartis Swiss Small & Mid Cap Selection Fund performed slightly better than the benchmark SPI Extra (-41.1%). The fund was repositioned in anticipation of an equity market recovery by streamlining the portfolio and increasing the concentration on fundamentally undervalued companies with a solid capital base. The Valartis Swiss Equities Optimized Fund underperformed the benchmark by 16.6 percentage points in 2008, mainly as a consequence of the strategically required underweight in large caps.

Eastern Property Holdings
Eastern Property Holdings (EPH) is a real estate company in the Valartis Group that focuses on Russia and manages a portfolio of real estate and development projects. When it was founded in 2003, EPH was the first listed company to operate in the newly emerging Russian real estate market. To this day, the company clearly stands out from others active in the CIS markets. EPH is not purely a developer, an investor or an operator, but combines the management of rental properties in Moscow and St Petersburg with development projects. EPH has a number of promising projects in attractive locations.

The first acquisition by EPH was the Berlin House, a trophy property for offices and retail on Petrovka Street in Moscow. Since construction was completed in 2002, the Berlin House has been considered one of Moscow's best investment-grade properties thanks to its outstanding location in the city centre, its first-rate tenants and the general quality of the construction and design. The 18,000-square-metre Geneva House is being built right next to the Berlin House. The end of construction in mid-2009 will mark the completion of the first development project in which EPH has been involved from the outset.

Since mid-2006, EPH has also owned the 48,000-square-metre Petrovsky Fort business centre in St Petersburg. Petrovsky Fort lets space to small companies and representative offices in an attractive business centre in Russia's second city.

The Valartis Group increased its stake in EPH to 20% in 2008. Thanks to its modest debt levels, repeat income, well-functioning management team and full project pipeline, EPH is an important asset for the Group and a source of future added value.

ENR Russia Invest SA
ENR Russia Invest SA (ENR) is an investment company listed in Switzerland that specialises in private equity investments in Russia, the other CIS countries and the Baltic states.

The first disinvestments were made in early 2008. ENR still holds a 13.5% stake in Naftrans Limited, which successfully sold its oil storage and transport business in Georgia and is now distributing the majority of the proceeds to its shareholders. The largest investment in 2008 was the acquisition of a stake in the Russian power monopoly UES. The opening up of the Russian electricity market offered attractive growth prospects. In addition, UES shares were trading at a significant discount to the net value of the subsidiaries, and this benefited the shareholders in the subsequent elimination of the monopoly. With the collapse of the equity markets in 2008, purchase prices for new private equity investments returned to a more realistic level. Accordingly, a number of companies in Russia now offer extremely attractive valuations.

MCT Berlin Residential Fund
The MCT Berlin Residential Fund was established at the end of 2005 and gives investors an opportunity to invest in the Berlin residential property market. The fund holds more than 4,500 residential units, mainly in Berlin with a small number in Leipzig. They have a total market value of around EUR 300 million. The maximum maturity of the fund is nine years.

Operationally, the fund had a very successful year in 2008. Vacancy rates were reduced considerably, and rental income was significantly increased. Net rents in excess of EUR 15 million were generated in 2008. Net operating income rose by 37% year-on-year. Nonetheless, the fund was unable to completely escape the downward valuation pressure caused by the general situation in the capital markets. Accordingly, its NAV declined by 2% year-on-year.

The "Am Steinberg" renovation project was completed on time and on budget in 2008. Since then, more than 580 apartments have been let, making the complex nearly fully occupied. Construction started in 2008 on projects including the "Grüne Stadt" (Green City) renovation scheme, bringing the fund closer to its target rental income of EUR 20 million.

Valartis German Residential Health Care
Valartis German Residential Health Care Fund was established in 2007/08 as a vehicle enabling investors to profit from demographic changes in the population structure and the steady rise in the percentage of people requiring care. The fund invests in first-class German assisted care facilities and has only minimal correlation with traditional real estate investments. In addition to secure dividends, it offers the opportunity of capital gains during the fund's lifetime. The first nursing home was acquired in 2008, and more will follow.

International real estate
We develop focused fund of funds strategies in the real estate and infrastructure segments for institutional investors. In addition, we advise our clients in the selection of funds of funds and the development of portfolio strategies, as well as in reporting and risk management. In financial year 2008, we won two new advisory mandates, for which we made investments in Europe, Asia and Latin America.

Images from top to bottom:
Berlin House, Geneva House, Petrovsky Fort

Business development in Algeria
Because of its gas and oil resources and its restored political stability, Algeria is considered a good investment opportunity for the future. With this in mind, the Valartis Group together with Jelmoli launched the construction of a first shopping, recreation and office complex in Algeria in May 2007. The building complex is located in the Bab Ezzouar business district of Algiers. The opening is planned for September 2009.

Wealth Management

A year of important progress
Even though the financial markets and the global economy moved in an extraordinarily difficult and unpredictable environment in 2008, we remained true to the fundamental values of Swiss private banking. As in the past, we concentrated on personally and individually working with our clients to achieve their individual financial goals.

The Wealth Management segment made progress in many different areas, and we will continue to expand this business in the future while protecting our clients' assets. We believe that the current financial market holds considerable long-term opportunities, providing these opportunities are approached with a good deal of caution and selectiveness.

In 2008, we pursued a conservative investment policy, which benefited our clients in the difficult environment.

We also made a sizable investment to prepare for the future, and due to a strong equity base the overall risk profile of the Bank improved in comparison to the sector.

All of this puts our Bank in a strong position, for the benefit of our clients and our shareholders alike.

Traditional values, modern approach
All of our actions are based on the fundamental values of Swiss private banking and a deep understanding of modern markets and methodologies. Our most important principles include client orientation, cautious asset allocation and careful risk management. In product development, we mainly focus on fixed assets and a longer-term horizon. Highly evolved processes, discretion and trust come as standard for us.

Our strategy
We will continue to build up our business in the future by expanding our existing client relationships, winning new clients and making acquisitions. We have strengthened the management of our Wealth Management business segment and established a program to recruit experienced wealth management experts to contribute to the development of client relationships and the expansion of business.

Our business model stands apart from the rest. It is based not on the presentation or sale of standard products, but on long-term, personal and individual service provided by a stable team. We give our clients the confidence that they can count on being served by the same representatives time and again.

Acquisition of Anglo Irish Bank (Austria) AG
We announced this important acquisition in September and completed it in December. The bank, renamed Valartis Bank (Austria) AG, manages approximately CHF 1.6 billion for about 4,000 private banking clients. Strategically, the bank is a perfect fit for the activities, culture and future development of Valartis.

The alliance will help us pursue new growth opportunities and deepen our expertise in important market sectors while expanding our internal capabilities.

This acquisition significantly enhances our presence in the wealth management sector and strengthens the Bank as a whole. Valartis Bank (Austria) AG will act as an independent subsidiary and will continue to be run by its existing management, but in close cooperation with our other Wealth Management units.

Our clients
We have clients from many different nations with widely divergent backgrounds. They are entrepreneurs, successful businesspeople or families, and they each have different needs and expectations.

Our fundamental approach is based on a clear and individual understanding of each client and their wishes for the future. We develop financial strategies with them that are focused on the achievement of their long-term objectives.

In candid discussions and in-depth consultations, we concentrate on limiting risk and preserving capital and look for the right

investment opportunities with high potential for gains in order to achieve our clients' goals.

Our independence give us the freedom to develop and recommend the best strategies and products for each client, without being restricted by our own interests or the need to promote sales. When we cannot find appropriate products in the market, we develop them ourselves.

Strong team
We expanded and developed our team in 2008 and will continue to pursue this strategic goal in 2009. We are always looking for experienced talented individuals with exceptional abilities in dealing with clients – real private banking experts who fit with the Valartis approach.

Our geographical presence is now enhanced, with branches in Geneva, Zurich and Vienna. We are in a position to serve international clients, wherever they might reside.

Outlook for 2009
We will continue to carefully and attentively observe developments in the economic and financial environment this year while concentrating on increasing our clients' returns over the long term.

Our dedicated and personal service and our performance attract new clients all the time. We will continuously reinforce our marketing activities to expand the Wealth Management business. In the process, we will rely on the strength of the enthusiastic teams and employees who are now part of Valartis Bank (Austria) AG.

In time, we will expand our business in Switzerland, the rest of Europe, Latin America and the Middle East, where we already have clients.

With a stronger presence, customer base and financial strength, we are well prepared for the challenges and opportunities of the future.

Vienna
The Valartis Group acquired Anglo Irish Bank (Austria) AG with effect from 19 December 2008 and on 8 January 2009 officially renamed it Valartis Bank (Austria) AG in the Austrian commercial register.

Valartis Bank (Austria) AG boasts a long and proud history. It was originally founded by Sigmund Rosenfeld as Bankhaus Rosenfeld in 1890, and despite various name changes in the course of the last 119 years, is still located in the building on Rathausstrasse that Mr Rosenfeld purchased after his arrival in Vienna.

Currently, 98 employees, including about 40 private banking, investment and treasury specialists, cover the entire service range of a private bank. Thanks to a broad range of support services, such as banking operations, human resources, marketing, finance, IT, cash desk and compliance, Valartis Bank (Austria) is in a position to act completely independently. Our staff are truly multicultural, with 17 nationalities and 15 languages represented.

English remains the lingua franca, as an official language alongside German.

Over the years, the business has grown considerably, and the company opened a second location on Mariannengasse, also near the city centre. We still concentrate on customised solutions for our private clients, their families and their trust and business structures. As a bank with a global reach,we serve about 4,000 active clients from North and Latin America, western and eastern Europe, the Middle East and Asia.

The core business is investments, with an open architecture with respect to recommendations. Our core service is the managed portfolio, both as an asset management and advisory mandate. We are active in a broadly diversified investment spectrum that encompasses deposit and treasury services in all major currencies, fixed-income securities, equities, investment funds and exchange-traded funds (ETFs), precious metals (in both “unallocated” and physical form [e.g. bars and coins]), hedge funds and private equity funds, derivatives, real estate, structured products and other traded debt instruments.

The fund company, Valartis Asset Management (Austria) KAG, manages a number of Austrian public and private funds. They are used not only for our own range of funds, which we administer and manage in Vienna, but also for high net worth individuals and family offices.

Investment Banking

Business performance in 2008

Valartis Bank's Investment Banking business segment was unable to escape the adverse market conditions in 2008. It suffered some painful losses, particularly in proprietary trading with equities, and largely concerning a few strategic positions in the Swiss small and mid-cap segment, where the illiquidity experienced in many areas of the equity markets was especially pronounced. Because of the significantly lower trading volume on the equity markets, commission income declined sharply as well. All of these factors prompted us to undertake a fundamental restructuring of the equities and equity derivatives business in the fourth quarter. For one thing, we made substantially lower limits available for proprietary trading, and we also combined the sales and research teams. Unfortunately, it was inevitable that we had to let a few employees go in the context of these restructuring and streamlining measures.

Valartis Europe AG, the division established in autumn 2007 for advisory services in corporate finance and mergers & acquisitions, performed well in 2008, its first full year of operation. We successfully concluded a number of cross-border transactions for our international clients. Consulting services were provided for the paper & packaging, financial services, real estate, printing & media and consumer goods industries. Despite the difficult environment, Valartis Europe expects an increase in M&A advisory mandates and transactions in 2009.

Energy trading, which is also part of the Investment Banking segment, proved its value in this difficult year for the traditional markets. The investment vehicles we offer ended 2008 with positive returns for our clients. Accordingly, we started to engage in some trading for our own account. Our first experiences have been very positive, so we are cautiously continuing to expand these activities. We are confident that there is tremendous potential in the CO_2 and energy market. Valartis Bank is now an acknowledged specialist in this field, and we are attempting to utilise this competence in a variety of different ways. The fact that we were honoured with the 2008 Derivatives Award for the best leverage product (bull-spread certificate on CO_2) confirms that we are on the right track. In response to investors' increased need for security, the strategies we employ feature extremely low volatility. The risk/reward profile is very attractive, and Valartis Bank intends to take advantage of this fact to generate more stable trading returns.

Outlook for 2009

The coming year will be decisive for the future of the Investment Banking unit. The redimensioning of the equities and equity derivatives business should make it possible to produce profits even when trading volumes are thin. We intend to systematically expand our energy trading activities. We initiated the required approval process and the necessary recruitment of new staff in 2008. We are confident that the relevance of CO_2 and power will continue in connection with the debate over climate protection and sustainable development. We are well-positioned in this area and can offer product and advisory services to a broad clientele.

As a result of the investments we have made in our trading and settlement environment, we are now in a position to offer comprehensive trading and securities settlement services to various units of the Valartis Group within the Investment Banking segment. In particular, the recent addition of Valartis Bank (Austria) AG to the Valartis Group should open up interesting synergies in this area.

As indicated earlier, we feel that the currently difficult M&A environment will recover. It is not possible to predict at this point whether the economy and the credit markets will normalise by the end of the year or whether the crisis will persist into 2010. The fact is that cross-border M&A consulting is experiencing strong demand as countries in central and eastern Europe continue to develop. We are well-positioned in this area thanks to Valartis Europe AG, and we are ready to seize opportunities as they arise.

Visa Bonus Card

Jelmoli Bonus Card AG
Jelmoli Bonus Card AG was established in 2006 and is headquartered in Zurich. It provides credit card and client loyalty services and is majority-owned by Jelmoli Holding AG. Valartis Bank AG holds a 27.5% stake in Jelmoli Bonus Card AG and is a principal member of Visa, the world's largest credit card organisation. Jelmoli Bonus Card AG is an associate member of Visa Europe.

Corporate strategy and objectives
The company's main priority is to continue to launch products and services in the Swiss credit card market that are more innovative and offer a more attractive price/performance ratio than the competition. The ongoing improvement of the Bonus Card client loyalty system and the constant adaptation to the market environment make a lasting contribution to the company's success.

Jelmoli Bonus Card AG focuses on client needs to ensure successful positioning in the market. Aside from client acquisition, another emphasis is on the activation of existing Bonus Card clients.

Today's partner network includes big-name companies that use the bonus system as a core client retention tool. Jelmoli Bonus Card AG's goal is to steadily expand the current partner network to enhance its attractiveness.

The effective implementation of these objectives requires specialist expertise in the credit card business. With the introduction of new card products, the experts at Jelmoli Bonus Card AG have proven their ability to professionally roll out major projects.

Milestones in 2008
The partnership with SBB, the Swiss rail operator, was a major milestone in 2008. Jelmoli Bonus Card AG was selected from among all major card issuers in Switzerland and won the contract because it demonstrated expertise backed by years of success in client loyalty as well as in the card business. A half-fare season ticket offer featuring a free, integrated Visa card was launched in October 2008.

The offer consists of a half-fare season ticket combined with either a free Visa credit card or a free prepaid card and is better value than the standard one-year half-fare option. As renewal is automatic, clients no longer have to do anything at the end of the year; the annual CHF 125 fee for the half-fare season ticket is conveniently charged to the integrated credit card or prepaid card.

Clients also have the option of ordering a Visa credit card or prepaid card without the half-fare feature. All clients can take up these products, and holders of a full GA travelcard can enjoy them for free.

Gaining market share in the Swiss credit card market and cultivating existing clients with targeted marketing campaigns remained an important objective in 2008. A mailing was sent to existing Bonus Card clients to promote the change to the Visa Bonus Card. In addition, rewards were offered for increased card spending.

Another priority was to motivate the partners in the Bonus Card network to actively encourage customer loyalty by means of marketing campaigns.

Safe.

Our clients and their assets
are safe with us.

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Corporate Governance

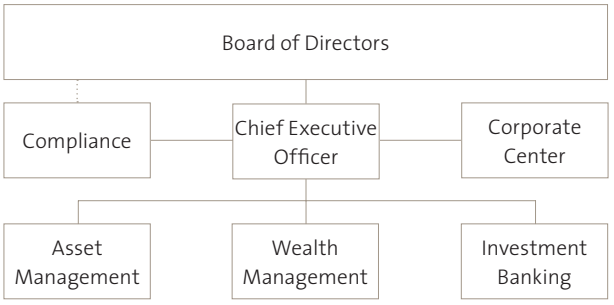
Corporate Governance

Corporate Structure and Shareholders

Group structure
Valartis Group AG is a public limited company under Swiss law. It has direct or indirect shareholdings in 19 fully consolidated, unlisted companies. A full list of these can be found in Note 29 to the consolidated financial statements. In addition, it holds a 27.5% stake in Jelmoli Bonus Card AG, Zurich. This unlisted company is included in the financial statements according to the equity method. It also holds a 19.87% stake in Eastern Property Holdings Ltd., Tortola, British Virgin Islands. This company, which is listed on the Swiss Exchange, is included in the financial statements according to the equity method.

The market capitalisation of Valartis Group AG as at 31 December 2008 was CHF 72.4 million. Of the total of 5,000,000 outstanding shares, 1.5% are owned by the company itself.

The domicile of Valartis Group AG is Baar, Canton of Zug, Switzerland. The bearer shares of Valartis Group AG (ISIN CH0001840450) are traded on the SIX Swiss Exchange.



Asset Management
In Asset Management, the Valartis Group focuses on actively managed portfolios (satellites) in the asset classes equities, private equity, real estate and other alternative investments. It has many years' experience on the capital markets of Russia, eastern Europe and Switzerland, where it structures specific products in the form of listed investment companies, investment funds and individual mandate solutions.

Wealth Management
We offer private banking and family office services to high net worth individuals in the form of asset management and advisory mandates. Our Wealth Management team works independently but can draw on the investment expertise and research capacity of the Group. The business segment was significantly strengthened by the acquisition of Valartis Bank (Austria) AG.

Investment Banking
Valartis Bank AG contributes extensive expertise in the Swiss equities market to the Group. This bank focuses on small & mid caps in both brokerage and its corporate finance activities. Valartis Europe AG complements the Group's Swiss-focused activities and at the same time leverages the Valartis Group's position in the central and eastern European market.

Scope of consolidation
The consolidated companies of the Group are listed in the Note 29 to the consolidated financial statements, detailing their name and domicile, capital, stock exchange listing and shareholding in percentage terms.

Major shareholders
MCG Holding S.A., Baar, Canton of Zug, holds 50% of the capital and the voting rights of Valartis Group AG. The beneficial owner of MCG Holding S.A. is a shareholder group consisting of Gustav Stenbolt, Geneva, Philipp LeibundGut, Herrliberg, Canton of Zurich, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. There are no other shareholders with participating interests greater than 3% of the voting shares.

Cross-shareholdings
There are no cross-shareholdings between Valartis Group AG and its subsidiaries and other companies.

Capital Structure

Capital
The share capital of Valartis Group AG is CHF 5,000,000, divided into 5,000,000 bearer shares with dividend and voting entitlement and a nominal value of CHF 1 each. All bearer shares of Valartis Group AG are fully paid up and traded on the main segment of the SIX Swiss Exchange.

With the exception of the conditional capital, there are no instruments outstanding that would result in dilution.

Conditional capital
At its Extraordinary Shareholders' Meeting of 14 December 2005, Valartis Group AG approved the creation of conditional capital of CHF 250,000 (divided into 250,000 bearer shares of Valartis Group AG with a nominal value of CHF 1 each) for employee share option programmes as follows: excluding existing shareholders' subscription rights, the Company's share capital shall be increased by a maximum of CHF 250,000 by issuing a maximum of 250,000 bearer shares, to be fully paid up, with a nominal value of CHF 1 each; the increase shall be carried out by means of options granted to employees of the Company or one of its Group companies or to members of the Board of Directors within the framework of a share option plan to be approved by the Board of Directors. Issuance below market price is permitted. The Board of Directors shall specify the details.

After introduction of the conditional capital, a share option plan was set up. The exercise of these options may have a diluting

effect. Authorisation to carry out the capital increase will cease on 18 March 2011.

The formal listing of the bearer shares of Valartis Group AG stemming from the conditional capital was applied for at the SIX Swiss Exchange on 28 December 2005, and its approval was secured.

Authorised capital
Valartis Group AG has no authorised capital.

Capital changes
As at 31 December 2004, Valartis Group AG had share capital of CHF 4,000,000, divided into 4,000,000 bearer shares with a nominal value of CHF 1 each, as well as a holding of 500,000 treasury shares.

At the Annual Shareholders' Meeting of 23 February 2005, a CHF 500,000 decrease in the share capital was approved, to be accomplished by cancelling 500,000 shares. The decrease was entered into the Commercial Register in May 2005, in accordance with Article 734 of the Swiss Code of Obligations (OR).

The Extraordinary Shareholders' Meeting of Valartis Group AG on 14 December 2005 approved an increase in the share capital from CHF 3,500,000 to CHF 5,000,000, excluding shareholders' subscription rights. The increase was to be accomplished by issuing 1,500,000 new bearer shares of Valartis Group AG with a nominal value of CHF 1 each.

Valartis Group AG's share capital remained unchanged in financial year 2008. The conditional capital of CHF 250,000, which was approved at the Extraordinary Shareholders' Meeting on 14 December 2005 and recorded in the Company's Articles of Association, remains unchanged.

Participation certificates
Valartis Group AG has no participation certificates.

Limitation of transferability and nominee registrations
There are no registered shares; accordingly, there are no limitations on transferability or regarding nominees.

Convertible bonds and options
Valartis Group AG has not issued any convertible bonds. Options on its own bearer shares have been issued within the scope of the creation of conditional capital (see “Conditional capital”).

Board of Directors

Members of the Board of Directors
As at 31 December 2008, the Board of Directors consisted of four members as follows:

Name	Function	Executive / non-executive member	Nationality	Elected until	First elected
Prof. Dr. Erwin W. Heri	Chairman	Non-executive member	Swiss	2009	2003
Dr. Stefan Holzer	Vice-Chairman	Non-executive member	Swiss	2009	2003
Philipp Leibund-Gut	Member	Executive member	Swiss	2011	2005
Jean-François Ducrest	Member	Non-executive member	Swiss	2011	2008

The majority of members of the Board of Directors fulfil the independence criteria of the relevant provisions of Circular 08/24, “Supervision and internal control”, of the Swiss Financial Market Supervisory Authority (FINMA).

Erwin W. Heri, born 1954
Dr. rer. pol., University of Basel. Associate professor in financial market theory at the University of Basel and visiting professor at the University of Geneva. Other offices held include chairman of the investment committee of Publica (Swiss federal pension fund); member of the Board of Directors of Ciba Spezialitätenchemie AG, Basel, Losinger Construction AG, Berne, and Sofisa Société Financière S.A., Fribourg; Chairman of the Board of Directors of Valartis Group AG and Valartis Bank AG; Vice-Chairman of the Supervisory Board of Valartis Bank (Austria) AG and Valartis Europe AG, Vienna. From 1995 to 1999 Erwin W. Heri was Chief Investment Officer of Winterthur Versicherungen and after the takeover of Winterthur by Credit Suisse, Chief Financial Officer of Credit Suisse Financial Services. He has been an independent business consultant since 2003.

Stefan Holzer, born 1961
Dr. rer. pol., University of Basel. Vice-Chairman of the Board of Directors of Valartis Group AG and Valartis Bank AG, member of the Board of Directors of Jelmoli Bonus Card AG, Zurich, and member of the Supervisory Board of Valartis Bank (Austria) AG and Valartis Europe AG, Vienna. From 1994 to 1999, Stefan Holzer was a partner at BZ Group.

Philipp LeibundGut, born 1973
Graduate of the Technical College of Basel-Land and Basel-Stadt. Responsible for corporate development at Valartis Asset Management S.A., Geneva. From 2002 to 2006, member of the Executive Board of Valartis Asset Management S.A.; member of the Board of Directors of Valartis Group AG and Eastern Property Holdings Ltd, Tortola (BVI); member of the Supervisory Board of Valartis Bank (Austria) AG, Vienna. From August 1998 to December 2001, Philipp LeibundGut worked for Hansa AG, Baar, Canton of Zug.

Jean-François Ducrest, born 1958
Lic. iur., University of Fribourg and attorney-at-law. Researcher at the Fribourg Faculty of Law until 1986, since then active as a lawyer in Geneva. Received a Master of Laws (LLM) degree from Duke University Law School in 1990. Lawyer at Paul Weiss Rifkind Wharton & Garrison in New York for one year. Partner in the Borel & Barbey law firm in Geneva since 2003. Member of the Geneva Bar Association, on Executive Board since 2004 and as Chairman since 2008.

Changes to the Board of Directors
Jean-François Ducrest was elected to the Board of Directors at the Annual Shareholders' Meeting on 6 May 2008. Timothy Rogers stepped down at the same time.

Additional activities and interests
The additional activities and interests of the individual members of the Board of Directors are listed under "Members of the Board of Directors".

Election and term of office
The members of the Board of Directors are elected by the Shareholders' Meeting for a term of three years, i.e. up to and including the third Ordinary Shareholders' Meeting after their election. Each member is elected individually. Members are eligible for re-election. In the event that a member withdraws before the end of his/her term of office, a replacement is elected at the next Shareholders' Meeting. Should the number of members of the Board of Directors fall below three, an Extraordinary Shareholders' Meeting must be held within a reasonable period for holding additional elections. The member elected as a replacement completes the term of office of his/her predecessor. Members' first election dates and ends of term of office are listed under "Members of the Board of Directors". The Board of Directors organises itself, appoints a chairman and a vice-chairman from among its members and nominates a secretary.

Internal organisation
The Board of Directors is the highest governing body of Valartis Group AG. It is responsible for the Company's overall management and decides on all matters that are not delegated to the Shareholders' Meeting by law or under the Articles of Association. With the exception of non-transferable and irrevocable powers, parts of the duties of the Board of Directors may be transferred to individual members (delegates), to a group of members (committees) or to third parties. In financial year 2008, there were no board committees.

The Board of Directors has not set up an audit committee because the Board of Directors comprises only a few members and if required has direct recourse to the necessary staff.

In addition to the non-transferable and irrevocable powers (Article 716a para. 1 OR), the Board of Directors has additional exclusive tasks. The most important of these include defining the Group's goals, the Group's strategy and the principles of the financing policy. The Board of Directors also decides on the principles of the HR and remuneration policy, determines the risk policy and control systems and ensures consolidated risk monitoring. The Board of Directors approves the business plan and the budget. The Board of Directors must approve the establishment, acquisition or sale of companies and substantial parts of companies, including subsidiaries. It must also approve the entry into or termination of strategic partnerships with third parties, the acquisition of participations above a certain size, and the establishment, acquisition and sale of companies or substantial parts of companies, including subsidiaries.

The Board of Directors consists of three or more members. It is convened by the chairman or, if he/she is unable to do so, by the vice-chairman, as often as business requires or at the request of one of its members or the auditors. The Board of Directors passes its resolutions by means of an absolute majority of members present. In the event of a tie, the chairman has the casting vote.

The discussions of the Board of Directors are minuted. The secretary is designated by the Board of Directors and need not be a member of the Board of Directors.

Assignment of authority
The Board of Directors is responsible for the supervision and control of the Group's management and fulfils the duties conferred on it by law (Article 716a OR). The Board of Directors has ultimate responsibility for the Company's medium and long-term direction and issues the necessary directives and regulations. Furthermore, the Board of Directors defines the Group's risk principles and must approve investments and other decisions affecting cash and legal transactions above a certain size.

Information and control instruments
The Board of Directors meets as often as the business of the Company requires, but at least once per quarter. In 2008, five ordinary meetings were held. The ordinary meetings generally take at least half a day. The meetings are also attended by the Chairman of the Group Executive Board (CEO), the Chief Financial Officer (CFO) and, depending on the agenda, additional members of the Group Executive Board. The Board of Directors is informed on a monthly basis of the assets and liabilities, financial, liquidity and income situation and the associated risks. The risk policy and its reasonableness are periodically examined. This forms the basis for risk management. The Board of Directors examines the control systems, compliance with limits and the accounting and reporting principles. In this context, it relies on its own inquiries and the work of internal and external auditors. In addition, the Board of Directors has an independent internal auditing unit. The duties and powers of the internal auditing unit are laid down in a separate directive. The internal auditing unit produces a detailed audit programme each year. Its purpose is to ensure that all risk-relevant business activities are audited under a plan covering several years. The Chairman of the Board of Directors may also use the internal auditing unit for special tasks in addition to its regular auditing work.

Group Executive Board

Members of the Group Executive Board
As at 31 December 2008, the Valartis Group Executive Board consisted of five members:

Name	Function	Nationality
Gustav Stenbolt	Chief Executive Officer (CEO)	Norwegian
Hanspeter Kaspar	Chief Financial Officer (CFO)	Swiss
Felix Morf	Head Asset Management	Swiss
Eric Berthelot	Head Wealth Management	Swiss
Reto Peczinka[1)]	Head Investment Banking	Swiss

1) until the end of April 2009

Gustav Stenbolt, born 1957
Lic. rer. pol., University of Fribourg. CEO of the Valartis Group and Valartis Bank AG, Zurich, Chairman of the Board of Directors of Valartis Asset Management S.A. and Valartis Wealth Management S.A., Geneva, ENR Russia Invest S.A., Geneva, and MCG Holding AG, Baar, Chairman of the Supervisory Board of Valartis Bank (Austria) AG, Vienna, and Valartis Europe AG, Vienna; Gustav Stenbolt is also a member of the Board of Directors of Eastern Property Holdings Ltd, Tortola (BVI), Anglo Chinese Group, Hong Kong, and Hypercenter Investments S.A., Luxembourg. He founded MCT Group in 1996.

Hanspeter Kaspar, born 1964
Dr. oec. publ., University of Zurich and Swiss certified accountant. Chief Financial Officer; since 1 September 2008 member of Group Management and the Executive Board of Valartis Bank AG. Hanspeter Kaspar is the head of the Corporate Center. Previously, he was in charge of the Finance & Controlling department of the Vontobel Group as a member of senior management. Before that he held various management positions with CS First Boston and CS Group and various management functions in auditing and consulting at Price Waterhouse.

Eric Berthelot, born 1961
Degree in Russian, Polish and law from Paris University, MBA from HEC (France). Member of the Executive Board of the Valartis Group and Valartis Bank. Responsible for the Wealth Management segment. Eric Berthelot was a cofounder and member of the Executive Board of EXANE, a leading asset manager in Paris. At Agricole Indosuez (Switzerland) he was the manager responsible for central European clients. He later founded and managed Valaxis Asset Management, an independent asset manager based in Geneva.

Felix Morf, born 1962
Graduate of the University of Alabama, USA. Member of the Executive Board of the Valartis Group since 1 July 2008 with responsibility for Asset Management. In the past ten years, Felix Morf has held various management positions at Pictet Funds SA, and most recently was responsible as Head Marketing for the worldwide marketing of Pictet funds.

Reto Peczinka, born 1970
Lic. oec. publ., University of Zurich. Responsible for the Investment Banking segment; trained as a certified financial analyst (CFA); member of the Group Executive Board and member of the Executive Board of Valartis Bank AG since 1 January 2006. Reto Peczinka will leave the Group with effect from the end of April 2009.

Valartis Bank (Austria) AG

Ernst Traun, born 1962
Lic. rer. pol., University of Fribourg. CEO of Valartis Bank Austria AG in Vienna since 2007; previously responsible for wealth management and private banking at Anglo Irish Bank (Austria) as a member of the Executive Board. Before that, he was in charge of private banking at Crédit Lyonnais in Vienna and worked for Chase Manhattan Bank in London, Vienna and New York.

Andrew Hartnett, born 1970
Degree in finance and accounting from Limerick University, Ireland, certified accountant. CFO and member of the Executive Board of Valartis Bank (Austria) AG since 2007; became General Finance Manager at Anglo Irish Bank (Austria) in 2002; before that, held a management position in finance with the US firm Becton Dickinson in Heidelberg, Germany.

Organisation of the Group Executive Board
The Group Executive Board is responsible for the management of the Company's business activities, except for the duties incumbent upon the Board of Directors by law or under the Articles of Association or the Organising Statute. The CEO heads up the Group Executive Board and decides on the business development. In particular, he/she is responsible for the development and implementation of the Group's strategy and its results and implements the directives of the Board of Directors.

Changes to the Group Executive Board
Timothy Rogers stepped down as Head Asset Management on 29 January 2008. He was replaced by Felix Morf with effect from 1 July 2008. On 19 May 2008, Henrik Bartl left the Valartis Group because, as a result of the strategic realignment, the Real Estate Structured Financing activities were divided up and transferred to Investment Banking and Asset Management. CFO Lorenzo Trezzini left the Group with effect from the end of April. He was succeeded by Hanspeter Kaspar with effect from 1 September 2008. Michel Arni stepped down from his position as Head Wealth Management on 22 September 2008, but still works for Wealth Management. Eric Berthelot took over as Head Wealth Management with effect from 22 September 2008. Reto Peczinka, Head Investment Banking, will be leaving the Valartis Group at the end of April 2009.

Additional activities and interests
The additional activities and interests of the individual members of the Group Executive Board are listed in the section "Members of the Group Executive Board".

Management agreements
Valartis Group AG and its subsidiaries have not transferred any management powers to third parties.

Remuneration, Participations and Loans

Content and process of determining remuneration and share ownership programmes
The Board of Directors of Valartis Group AG ("the Company") has drawn up internal regulations with regard to setting the remuneration of the members of the Board of Directors and the Group Executive Board. These regulations determine the decision-making powers and the remuneration system. The regulations are checked annually with regard to their appropriateness and adjusted if necessary.

The remuneration of each individual member of the Board of Directors and the Group Executive Board is approved by the entire Board of Directors of Valartis Group AG. A member of the Board of Directors whose pay is being determined abstains from voting. At present there is no permanent compensation committee or external consultant for the structuring and definition of the remuneration system.

The *members of the Board of Directors* are paid a fixed remuneration depending on their function and their contribution to the Group. There are no additional (variable) attendance fees. If the remuneration of a member of the Board of Directors exceeds CHF 100,000, the total remuneration is paid in shares of the Company until the member in question holds shares in the Company corresponding to at least three times his/her current annual remuneration. Members are obliged to hold such shares throughout their term of office.

Remuneration of the *members of the Group Executive Board* consists of a fixed basic salary and performance-related remuneration. The latter includes both quantitative and qualitative factors. The basic salary depends on the mandate and the functional responsibility of each member of the Group Executive Board. The performance-related remuneration (bonus) is determined by the following factors: (a) Group operating profit, (b) operating profit of the business segment and (c) individual, personal contribution. In determining the remuneration, due consideration is given to the shareholders' capital interests (return on equity, impact of market fluctuation on the results, etc.).

The composition of the bonus according to the individual components (a) to (c) depends on the function of the member of the Group Executive Board. The following table shows the minimum and maximum weightings of these components. The exact percentages are determined each year within these ranges.

Component/function	CEO	CFO	Head business segment
(a) Group operating profit	30%–50%	20%–40%	20%–30%
(b) Operating profit of business segment	–	–	30%–40%
(c) Individual personal contribution	70%–50%	80%–60%	50%–30%

If the operating profit targets of components (a) and/or (b) are not met, the bonus (relating to these components) is reduced. If the operating profit targets of components (a) and/or (b) are exceeded, the members of the Group Executive Board participate in the higher profit contribution. The same essentially applies to remuneration for personal performance (c); the determination of this remuneration component, however, is influenced by factors that cannot be quantified.

As an incentive for the members of the Group Executive Board to think and act with a view to sustainably strengthening the Company's earning power, 50% of the performance-related remuneration is paid in shares of the Company. Half of these shares are blocked for two years, whereby ownership of the shares is transferred to the member of the Group Executive Board at the time of allocation. The other half is paid in shares in the Company with a vesting period of two years. Consequently, ownership of the shares is not transferred when the shares are allocated but only when actual payment takes place to the entitled member of the Group Executive Board after two years.

If a member of the Group Executive Board leaves the Company, the Board of Directors decides which part of the shares that were allocated but not yet transferred to the ownership of this member of the Group Executive Board should be returned to the Company. If the Company reports a Group loss for a financial year, the CEO and the head of the business segment responsible for the loss lose their claim to a bonus. Furthermore, shares which had been allocated but not yet transferred to the ownership of the CEO and the head of the business segment are reduced by 50% or returned to the Company.

Due to the dependence on the course of the business and individual performance contributions, the total remuneration of a member of the Group Executive Board may vary significantly from year to year. The relation between fixed and variable remuneration fluctuates accordingly. In financial year 2008, no performance-related remuneration was paid to members of the Group Executive Board in addition to basic salaries.

Financial year 2008
The remuneration system described above was fully applicable for the first time in financial year 2008.

Information on the remuneration of the members of the Board of Directors is provided in Note 32 to the Consolidated Financial Statements.

Shareholders' Rights of Participation

Restrictions on voting rights and proxies
The shareholders' rights of participation correspond to the statutory regulations of the Swiss Code of Obligations. There are no restrictions on voting rights.

Quorum prescribed by the Articles of Association
There are no regulations that deviate from Article 704 of the Swiss Code of Obligations.

Convocation of the Shareholders' Meeting
There are no provisions in the Articles of Association that deviate from the statutory provisions governing the convening of the Shareholders' Meeting.

Agenda
The Articles of Association provide that one or more shareholders who together represent at least 3% of the share capital may propose an agenda item for the Shareholders' Meeting in writing explaining the proposed matter and motions; the proposed agenda item must be received by the Company at least 45 days before the Shareholders' Meeting.

Recording in share register
There are no registered shares; accordingly, no share register is kept.

Change of Control and Defensive Measures

Opting out
An acquirer of the shares of the Company is not obliged to make a public purchase offer pursuant to Articles 32 and 52 of the Swiss Federal Act on Stock Exchanges and Securities Trading.

Change of control clauses
There are no contractual severance payments for members of the Board of Directors or employees of the Valartis Group.

Auditors

The consolidated financial statements and the annual financial statements of Valartis Group AG and its subsidiaries are audited by Ernst & Young AG. The auditor of Valartis Group AG and the Group auditor are appointed at the Ordinary Shareholders' Meeting for a period of one year.

Duration of mandate and period of office of the lead auditor
Ernst & Young AG was first appointed auditor when Valartis Group AG was established in 1988. The lead auditor is Cataldo Castagna, who has exercised this function since financial year 2004.

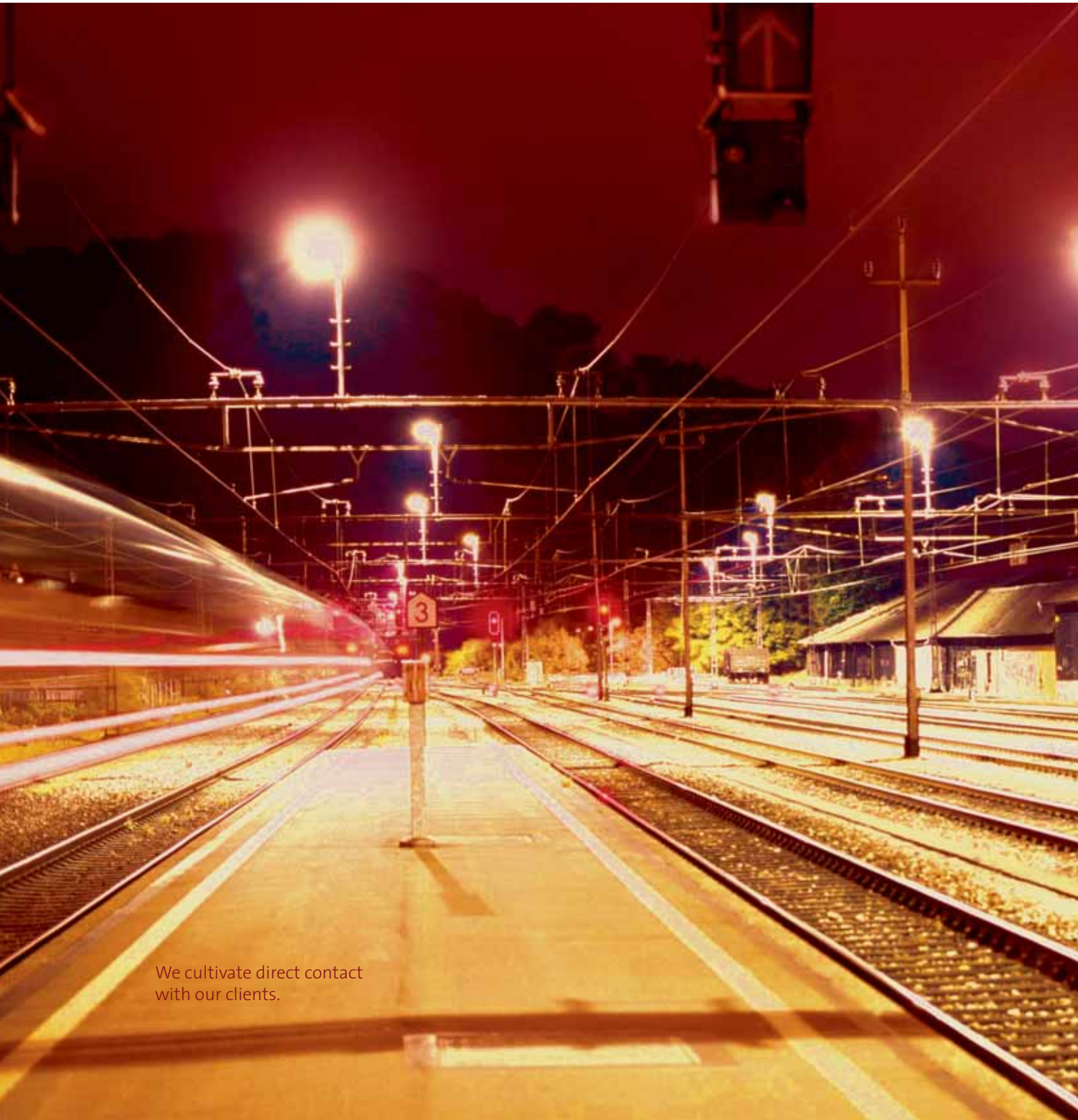
Auditor's fee
Ernst & Young AG charged the Valartis Group CHF 957,990 in financial year 2008 (previous year: CHF 853,724) for services in connection with auditing the annual financial statements and the consolidated financial statements of the Valartis Group and the Valartis Group companies.

Additional fees
In addition, Ernst & Young AG charged the Valartis Group CHF 414,649 (previous year: CHF 296,930) for other services related to legal matters, taxes, risk policy and IT.

Supervision and control instruments with regard to the auditors
Supervision and control of the external auditors and Group auditor is the responsibility of the Board of Directors. This responsibility includes handling the reports by the internal and external auditors.

Information Policy

The consolidated balance sheet and income statement are published biannually according to IFRS accounting standards. In addition to electronic communication, hard copies of the annual and half-year reports are mailed to interested parties, and the report can be downloaded from www.valartis.ch. Contact addresses are listed on page 101.



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Consolidated Income Statement

	Note	1.1.–31.12.2008 CHF	1.1.–31.12.2007 CHF
Interest and discount income		7,796,854	3,800,501
Dividend income		1,400,960	2,446,881
Interest expense		–6,049,257	–2,788,752
Income from interest/dividend business		**3,148,557**	**3,458,630**
Commission income from loan business		784,996	1,172,289
Commission income from securities and investment business		59,270,694	94,877,609
Commission expense		–11,478,991	–9,683,025
Net income from commission and service fee business		**48,576,699**	**86,366,873**
Income from trading		**–56,426,094**	**23,008,237**
Income from business combination (negative goodwill)		14,023,795	0
Income from associated companies		41,467,832	–1,556,021
Other income		1,245,419	0
Other ordinary income	4	**56,737,046**	**–1,556,021**
Total operating income		**52,036,208**	**111,277,719**
Personnel Expense	16	35,096,081	32,533,031
General expense	10	23,132,354	17,475,467
Administrative expense		**58,228,435**	**50,008,498**
Gross operating loss/profit		**–6,192,227**	**61,269,221**
Depreciation/amortisation of property, plant and equipment and intangible assets	17	2,769,020	2,008,252
Valuation adjustments, provisions and losses	7	155,000	0
Net profit before taxes		**–9,116,247**	**59,260,969**
Taxes	18	5,144,384	–10,078,468
Net profit		–3,971,863	49,182,501
Net profit (loss) attributable to minority interests		7,267,997	732,327
Net profit attributable to shareholders of Valartis Group AG		**3,296,134**	**49,914,828**

Statement of Financial Positions

Assets

	Note	31.12.2008 CHF	31.12.2007 CHF
Cash		66,898,867	4,014,468
Cash deposits for borrowed securities		0	9,900,000
Due from banks		901,670,769	104,521,027
Due from clients		105,361,134	48,575,757
Trading portfolio assets	1	72,603,439	209,872,206
Financial assets available for sale	1	40,914,833	14,951,385
Other financial assets at fair value		656,005	95,232
Associated companies	30	89,548,828	2,153,479
Property, plant and equipment	5	93,003,502	19,471,099
Accrued and deferred assets	8	12,629,368	31,239,388
Positive replacement values	2	2,078,321	6,810,978
Other assets		5,931,072	527,332
Goodwill and other intangible assets	3	86,154,893	38,313,800
Deferred tax claims	6	23,715,648	270,201
Total assets		**1,501,166,679**	**490,716,352**

Liabilities

Liabilities			
Due to banks		164,586,208	57,729,095
Cash deposits for loaned securities		0	15,000,000
Due to clients		969,651,749	76,646,223
Trading portfolio liabilities	1	0	7,071,162
Other financial liabilities at fair value		0	19,684,073
Negative replacement values	2	6,629,012	25,733,831
Taxes		9,487,919	13,795,201
Accrued and deferred liabilities	9	17,208,120	21,390,085
Other liabilities		8,783,729	4,179,121
Valuation adjustments and provisions	7	8,920,817	1,423,000
Deferred tax liabilities	6	30,012,061	3,665,016
Total liabilities		**1,215,279,615**	**246,316,807**
Shareholders' equity			
Share capital	25	5,000,000	5,000,000
Reserves		244,015,308	243,926,862
Foreign exchange translation differences		–3,202,244	232,180
Unrealised gain/loss from financial assets available for sale		–2,951,245	–229,469
Treasury shares		–3,964,989	–3,973,947
Shareholders' equity of the shareholders of Valartis Group AG		**238,896,830**	**244,955,626**
Minority interests		**46,990,234**	**–556,081**
Total shareholders' equity (including minority interests)		**285,887,064**	**244,399,545**
Total liabilities and shareholders' equity		**1,501,166,679**	**490,716,352**

Statement of Changes in Shareholder's Equity

	2008 CHF	2007 CHF
Share capital		
Position at 1 January	5,000,000	5,000,000
Change in share capital	0	0
Position at 31 December	**5,000,000**	**5,000,000**
Capital reserves		
Position at 1 January	–7,573,060	–8,537,140
Income from the sale of treasury shares and derivatives on treasury shares	–715,287	964,080
Position at 31 December	**–8,288,347**	**–7,573,060**
Foreign Exchange Translation differences		
Position at 1 January	232,180	76,486
Change during the reporting period	–3,434,424	155,694
Position at 31 December	**–3,202,244**	**232,180**
Retained earnings		
Position at 1 January	251,499,922	215,335,094
Net profit	3,296,134	49,914,828
Dividend payments	–13,750,000	–13,750,000
Income from first-time consolidation of associated companies[1)]	11,257,599	0
Position at 31 December	**252,303,655**	**251,499,922**
Unrealised gain/loss from financial assets available for sale		
Position at 1 January	–229,469	0
Unrealised gain/loss from financial assets available for sale	–2,721,776	–229,469
Position at 31 December	**–2,951,245**	**–229,469**
Treasury shares		
Position at 1 January	–3,973,947	–2,700,000
Change in treasury shares	8,958	–1,273,947
Position at 31 December	**–3,964,989**	**–3,973,947**
Minority interests		
Position at 1 January	–556,081	0
Change in minority interests in equity	54,619,207	119,644
Minority interests in net profit/loss	–7,267,997	–732,327
Foreign exchange translation differences	195,105	56,602
Position at 31 December	**46,990,234**	**–556,081**

1) See Note 30 "Associated companies"

The conditional capital is CHF 250,000, divided into 250,000 bearer shares with a nominal value of CHF 1 each.

Consolidated Cash Flow Statement

	Note	2008 CHF	2007 CHF
Profit before taxes (including minority interests)		–9,116,247	59,260,969
Non-cash activities in the consolidated income statement			
Amortisation of intangible assets	17	1,414,940	1,496,099
Depreciation of property, plant and equipment	17	1,354,080	512,153
Change in value adjustments and provisions	7	155,000	0
Income from associates	4	–41,467,832	1,556,021
Income from business combination (negative goodwill)	4	–14,023,795	0
Change in deferred taxes		–3,441,120	–578,992
Net (increase) decrease in assets and liabilities of the banking business			
(Increase) decrease in accrued and deferred assets		23,025,773	–10,983,427
(Decrease) increase in accrued and deferred liabilities		–11,939,965	–5,281,130
(Increase) decrease in trading securities		208,105,248	–6,174,028
(Decrease) increase in liabilities from trading		–7,071,162	6,239,467
(Decrease) increase in amounts due to clients		29,661,468	11,109,746
(Increase) decrease in amounts due from clients		66,971,523	–12,632,756
(Decrease) increase in amounts due to banks		60,577,843	53,094,251
(Increase) decrease in amounts due from banks		633,855,155	–1,445,111
(Increase) decrease in cash deposits for borrowed securities		9,900,000	–5,900,000
(Decrease) increase in cash deposits for loaned securities		–15,000,000	15,000,000
(Increase) decrease in positive replacement values		4,732,657	–4,230,687
(Decrease) increase in negative replacement values		–19,144,819	10,902,402
(Increase) decrease in other financial assets at fair value		63,871,708	3,198,557
(Decrease) increase in other financial liabilities at fair value		–19,648,073	–29,826,071
(Increase) decrease in other assets		2,485,860	–27,048
(Decrease) increase in other liabilities		1,357,817	407,439
Net change in deferred taxes		–4,307,282	0
Taxes paid		433,512	–1,302,889
Cash flow from operating activities		**1,027,867,263**	**84,394,965**
Purchase of property, plant and equipment	5	–39,837,860	–19,017,452
Sale of property, plant and equipment	5	9,568,684	0
Acquisition of associates		–34,669,918	0
Acquisition of intangible assets	3	0	–851,459
Acquisition of financial assets available for sale		–28,685,324	–15,180,854
Acquisition of subsidiaries less acquired cash		–227,448,906	–18,019
Cash flow from investment activities		**–321,073,324**	**–35,067,784**
Dividend distributions		–13,750,000	–13,750,000
Change in treasury shares and derivatives on treasury shares		–712,112	–1,725,747
Change in minority interests in equity		54,499,563	81,946
Cash flow from financing activities		**40,037,451**	**–15,393,801**
Effect of foreign exchange translation differences (including minority interests)		–762,014	22,183
(Increase) decrease in cash and cash equivalents		**680,944,402**	**33,955,563**
Position at 1 January		44,832,495	10,876,932
Position at 31 December		725,776,897	44,832,495

Consolidated Cash Flow Statement

	2008 CHF	2007 CHF
For the purpose of the cash flow statement, cash and cash equivalents are made up of the following accounts:		
Cash	66,898,867	4,014,468
Due from banks at sight/callable	658,878,030	40,818,027
Total cash and cash equivalents	**725,776,897**	44,832,495
Dividends received	1,538,194	2,446,881
Interest received	5,051,800	3,799,174
Interest paid	3,671,465	1,911,561

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". See "Changes to accounting policies", section 3.3 "Other changes".

Information on the Consolidated Financial Statements

1. Description of Business

The Valartis Group is a Swiss banking group whose parent company, Valartis Group AG, Baar, Canton of Zug, Switzerland, is listed on the SIX Swiss Exchange. In its three core activities – asset management, wealth management and investment banking – the Valartis Group focuses on developing and managing innovative investment and niche products and providing specialised banking services. Geographically, the Group is primarily active in Switzerland and other European countries, in particular in central and eastern Europe.

2. Accounting Principles

The consolidated financial statements of the Valartis Group are prepared in accordance with International Financial Reporting Standards (IFRS) and correspond to the provisions of the listing regulations of the Swiss Exchange. As a financial group, the Valartis Group is subject to consolidated supervision by the Swiss Financial Market Supervisory Authority (FINMA).

Consolidation is based on uniformly prepared individual financial statements of the Group companies.

The consolidated financial statements are in Swiss francs (CHF).

3. Changes to Accounting Policies

3.1 Implemented international financial reporting standards and interpretations

The Valartis Group has implemented the following new and revised International Financial Reporting Standards and their interpretations with effect from 1 January 2008:

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This interpretation provides guidelines concerning the limits in the measurement of capitalisable gains under IAS 19. The interpretation also explains how gains or losses can change due to minimum statutory or contractual funding requirements. See Note 36 concerning the influence of the new interpretation on the consolidated financial statements of the Valartis Group.

Other new standards and interpretations

The following new and revised standards and interpretations applicable from 1 January 2008 had no effect on the results and equity of the Valartis Group.

- IFRIC 11 – IFRS 2: Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IAS 39 – Financial Instruments: Recognition and Measurement

3.2 Standards and interpretations not yet implemented

Various new and revised International Financial Reporting Standards and their interpretations need only be applied for financial years beginning on or after 1 January 2009. The Valartis Group has not made use of the possibility of early application.

IAS 1 – Presentation of Financial Statements

This revised standard requires that all non-owner changes in equity be presented either in a statement of comprehensive income or in two separate statements (traditional income statement and statement of comprehensive income). The revised standard enters into effect on 1 January 2009 and at the time of its first application will have no effect on the results and equity of the Valartis Group.

IAS 32 – Financial Instruments: Presentation; and IAS 1 – Presentation of Financial Statements

The revised IAS 32 defines the circumstances under which puttable financial instruments and obligations are now to be treated as equity instruments. The revision of IAS 1 contains additional disclosure obligations relating to such equity instruments. The amendments enter into effect on 1 January 2009. The new provisions should not have any significant effects on the results and equity of the Valartis Group at the time of their first application.

IFRS 2 – Share-Based Payment

In January 2008, the IASB published an amendment to IFRS 2 more accurately defining vesting conditions and clarifying the accounting treatment of cancellations. The revised standard enters into effect on 1 January 2009.

IFRS 3 – Business Combinations and IAS 27 – Consolidated and Separate Financial Statements

The changes to the revised standard concern the treatment of specific issues in connection with business combinations (e.g. measurement of non-controlling interests, treatment of acquisitions achieved in stages) and changes in ownership interests with or without loss of control. The revised standards are mandatory for the first time in financial years beginning on or after 1 July 2009. The new provisions should not have any significant effects on the Valartis Group at the time of their first application.

IFRS 8 – Operating Segments

The new standard replaces IAS 14 – Segment Reporting and in particular provides for the application of the management approach. Reporting is to be based on the information which management applies internally for the assessment of the performance of operating segments and the allocation of resources to these segments. The new standard is mandatory for financial

years beginning on or after 1 January 2009 and, based on initial analysis, should not have any significant effects on the net income and equity of the Valartis Group.

Improvements to IFRS
The International Accounting Standards Board (IASB) lists a number of amendments to various standards in the Annual Improvements Project. The amendments enter into force on 1 January 2009.

3.3 Other changes
Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". Accordingly, the amortisation of software is now reported as depreciation of property, plant and equipment. As a consequence of the adjustment of the prior-year figures, CHF 0.77 million was reclassified from the position "Goodwill and other intangible assets" to "Property, plant and equipment" in the balance sheet as at 31 December 2007. This change had no effect on net profit or consolidated shareholders' equity.

4. Approval of the Consolidated Financial Statements

The 2008 consolidated financial statements were released by the Board of Directors on 1 April 2009. There were no significant events up until that date requiring disclosure. The consolidated financial statements are subject to the approval of the Shareholders' Meeting on 5 May 2009.

5. Major Accounting Principles

5.1 Consolidation principles
In addition to the amounts of Valartis Group AG, Baar, Canton of Zug, Switzerland, the consolidated financial statements include the balances of shareholdings according to the following rules:

Consolidated companies
Group companies that are directly or indirectly controlled by the Valartis Group are consolidated according to the full consolidation method. Acquired Group companies are consolidated from the time at which control is transferred to the Group and deconsolidated from the time at which control is lost.

Method of consolidation
All intra-Group receivables and liabilities, earnings and expenses, as well as off-balance-sheet transactions, are completely eliminated in the Group financial statements. The equity of consolidated companies is recorded at the carrying value of the participations at the parent company at the time of purchase or the time of establishment. After the initial consolidation, changes resulting from business operations that are included in the result for the reporting period are allocated to retained earnings. Minority interests in equity and Group results are stated separately in the consolidated balance sheet and income statement.

Non-consolidated participations (associated companies)
Group companies over which the Valartis Group can exercise a substantial influence are included according to the equity method under "Associated Companies". Influence is, as a rule, considered substantial if the Group holds between 20% and 50% of the voting rights.

Under IAS 28.23, investments in an associate must be recognised and measured analogously to majority ownership in accordance with IFRS 3. Accordingly, the purchase price must be compared with the value of the investor's share (after revaluation) of the associate in order to identify any necessary adjustments and any positive or negative ("bargain purchase") goodwill. In contrast to IFRS 3, however, under the equity method all adjustments and goodwill positions are reported as a separate balance sheet item under "Associated Companies". Any negative goodwill positions are recognised in income under "Income from associates" (IAS 23b). Subsequently, the carrying amount of the associate is increased or decreased depending on the Group's share in the profit or loss of the associate.

Changes in the scope of consolidation
On 30 June 2008, the Valartis Group acquired a 38.32% stake in ENR Russia Invest, an investment company domiciled in Geneva. The stake is now over 50%, and the Group applies the full consolidation method. On 19 December 2008, Valartis Group AG completed the full acquisition of Anglo Irish Bank (Austria) AG together with its subsidiary AIBC Anglo Irish Bank (Austria) Kapitalanlagegesellschaft mbH. Detailed information on this acquisition can be found in the Notes on pages 56-58.

Consolidation period
The consolidation period for all Group companies is the calendar year. The closing date for the consolidated financial statements is 31 December.

5.2 General principles of currency translation
The functional currency is the Swiss franc (CHF), the currency of the country in which the Valartis Group AG is domiciled.

The assets and liabilities denominated in foreign currencies of foreign Group companies are translated into Swiss francs at the respective exchange rates on the balance sheet date. For the income statement and the cash flow statement, annual average exchange rates are used. Any exchange rate differences resulting from consolidation are reported as translation adjustments in equity.

In the individual financial statements of the Group companies, transactions in foreign currencies are recognised at the corresponding daily exchange rates. Monetary assets are translated and booked in the income statement at the exchange rates valid on the balance sheet date. Non-monetary items recorded at historical cost in a foreign currency are translated at the historical exchange rate.

The following exchange rates are used for the major currencies:

	2008 Balance sheet date rate	2008 Annual average rate	2007 Balance sheet date rate	2007 Annual average rate
EUR	1.490	1.580	1.656	1.643
USD	1.068	1.094	1.124	1.200
GBP	1.561	1.969	2.256	2.402
CAD	0.875	1.010	1.146	1.121

Segments (business segments and regions)
The Valartis Group distinguishes between primary and secondary segment reporting. The business segments form the primary format for the segment reporting, while the geographical segments represent the secondary reporting format.

The Valartis Group is divided into three operational business segments: Asset Management, Wealth Management and Investment Banking. The regional segment report breaks down into Switzerland and "Other countries". Reporting is based on operating locations.

Items that cannot be directly allocated to a particular segment are recognised in the Corporate Center. Consolidation items are also included in the Corporate Center.

Cash and cash equivalents
Cash and cash equivalents in the cash flow statement consist of liquid assets (petty cash, postal cheque balances and giro and sight deposits with the Swiss National Bank) and at sight/callable amounts due from banks.

Accrual of earnings
Income from services is recorded when the services are provided. Individual transactions, particularly in corporate finance, are recognised when the service is completed. Interest is accrued by period. Dividends are recognised on receipt of payment.

5.3 Financial instruments
Basic principle
Purchases and disposals of financial instruments are recognised in the balance sheet at the trade date. At the time of initial recognition, financial assets and liabilities are, in accordance with IAS 39, attributed to the corresponding categories and measured on the basis of their classification.

The Valartis Group classifies financial instruments, which includes traditional financial assets and liabilities and equity instruments, as follows:

- Financial assets or financial liabilities measured at fair value through profit and loss
- Financial assets available for sale
- Financial investments held to maturity
- Loans made that are neither held for trading nor represent available-for-sale financial assets and that are not measured at fair value in the income statement

Determination of fair value
The fair value is the amount for which an asset could be exchanged or a liability settled in an arm's length transaction between knowledgeable, willing parties. The determination of the fair value of financial assets and liabilities is based on quoted market prices or price quotes by brokers, where the financial instruments are traded on an active market. For the remaining financial instruments, the fair value is determined by means of valuation methods. These include the discounted cash flow model, comparison with similar instruments for which market prices are available and generally accepted valuation models based on input parameters observable on the market.

Trading securities and liabilities from trading
Definition
Trading securities includes money market paper, other debt instruments including marketable loans and equity instruments that belong to the Group (long positions). Liabilities from trading include obligations to deliver financial instruments such as money market paper, and other debt and equity instruments that the Group has sold to third parties but that do not belong to the Group (short positions).

A financial asset or liability is designated as held for trading if the asset was bought or if the liability was entered into mainly with the goal of a short-term sale or repurchase and if it is part of a clearly identifiable portfolio for which there are indications of short-term profit-taking in the recent past.

Measurement
Trading securities and liabilities from trading are reported at fair value. Profits and losses from sale or redemption and changes in fair value are recognised under "Income from trading". Interest and dividend income or interest and dividend expense from trading are recorded in "Income from interest and dividend business".

Derivative financial instruments

Definition

All derivative financial instruments are reported as positive or negative replacement values. Derivatives that are embedded in underlying contracts count as hybrid instruments and originate from the issue of structured debt instruments. For these products, the Valartis Group applies the fair value option; accordingly, there is no need to separate the embedded derivative components for measurement purposes. Consequently, recognition takes place under the positions "Financial assets at fair value" or "Financial liabilities at fair value".

The Valartis Group uses derivative financial instruments for trading purposes.

There are no netting agreements; accordingly, there is no offsetting of positive and negative replacement values with the same counterparty.

Measurement

Changes in the fair value of derivatives that are used for trading or that do not meet the stringent criteria for hedge accounting are recognised in the income statement under "Income from trading".

Other financial instruments at fair value (fair value option)

Definition

On initial recognition, a financial instrument may be assigned to the category "Other financial instruments at fair value" and recognised in the balance sheet under "Financial assets at fair value" or "Financial liabilities at fair value". Profits and losses from sale or redemption and changes in fair value are recognised under "Income from trading".

In its issuing business, the Valartis Group reports issued structured products that include a debt instrument and an embedded derivative under the position "Other financial liabilities at fair value". In accordance with the fair value option as defined in IAS 39, the requirement to split the structured products into the underlying contract and embedded derivative and report them separately does not apply.

Financial assets available for sale

Definition

The category "Financial assets available for sale" consists of financial instruments that are held for an indefinite period. Their sale allows management to react to liquidity squeezes or movements in interest rates, exchange rates or share prices. They can comprise equity instruments, including specific private equity investments, and debt instruments.

Measurement

Financial assets available for sale are reported at fair value. Unrealised gains or losses from financial assets available for sale are recognised in shareholders' equity (after deferred taxes) under the position "Unrealised income from financial assets available for sale" until the financial assets are derecognised or impaired.

As soon as a financial asset available for sale is classified as permanently impaired, the accumulated, unrealised loss that had hitherto been recognised in equity (corresponding to the difference between historical cost and the current fair value, less any impairment of the asset which may previously have been recognised in the income statement) is transferred to the income statement under "Other ordinary income". Equity instruments are classified as impaired if their market value remains significantly or for an extended period of time beneath their historical cost. Debt instruments are impaired if there is a significant deterioration in the corresponding borrower's creditworthiness or if there are other signs of problems with the borrower.

If a subsequent event shows that there is no or only a partial lasting impairment, the value may be written up. In the case of equity instruments, any write-up is recognised in shareholders' equity. In the case of debt instruments, on the other hand, the impairment is reversed through the position "Other ordinary income".

After the sale of financial assets available for sale, the accumulated unrealised gain or loss which had previously been recognised in equity is transferred to the position "Other ordinary income" for the reporting period.

Interest and dividend income is accrued according to the effective interest rate method and recorded under "Income from interest and dividend business".

Financial assets held to maturity

Definition

Financial investments held to maturity are investments with fixed or determinable payments and a fixed maturity which the Group has the intention and capability of holding until maturity. Shares, participation certificates and fund units cannot be financial investments held to maturity because they do not expire. Convertible bonds also do not qualify as financial investments held to maturity because this does not suit their characteristics.

Measurement

A financial asset held to maturity is recognised at amortised cost using the effective interest rate method, unless it is impaired. Financial investments are considered impaired if there are objective indications that the full contractually agreed amount may not be recovered. If an impairment has been made, the carrying

value is reduced to the recoverable amount and recognised in the income statement. Interest and dividend income is accrued according to the effective interest rate method and recognised in "Income from interest and dividend business".

Loans

Definition

Loans include loans that the Group grants directly to a borrower, as well as purchased loans that are not held for trading and not traded on an active market. Granted loans that are soon to be sold are recognised under trading securities and accordingly are measured at fair value in the income statement.

Measurement

Initial measurement is at fair value, which corresponds to the cash expended for the issue of the loans including transaction costs. Subsequent valuation is at amortised cost less any specific value adjustment for credit risks.

Any difference between the original amount and the amount to be repaid at maturity is amortised using the effective interest rate method and accrued as interest and discount income or interest expense in the income statement.

At each balance sheet date, a credit assessment is made to see if there are objective indications that the contractually owed amount may not be recovered in full. If there are such indications, specific value adjustments for credit risks are made on these impaired loans. Specific value adjustments for credit risks are recognised in the balance sheet as write-downs of the carrying value of the loan in question. The value adjustment is measured on the basis of the difference between the carrying amount of the receivable and the prospective recoverable amount, discounted at the effective interest rate determined in the initial recognition in consideration of the net proceeds from the realisation of any collateral. Loans with variable interest rates are discounted at the current effective interest rate. If there are changes with regard to the amount and the timing of expected future cash flows compared to previous estimates, the value adjustment for credit risks is adjusted and recognised in the income statement under "Value adjustments, provisions and losses".

Non-performing loans are receivables for which the contractually agreed capital and/or interest payments are overdue by more than 90 days and where there are no clear indications that they may be recovered by later payments or the sale of collateral. Interest is still charged on non-performing loans. It is, however, no longer recorded under the income item "Interest and discount income" but instead is directly allocated to specific value adjustments. If the interest at risk is paid, it is not recorded in the income statement; rather, the client's commitment is reduced. Loans are fixed without interest when their collectability is so doubtful that an accrual can no longer be considered reasonable. Non-performing loans that are classified as completely or partially unrecoverable are eliminated and charged to a specific value adjustment if one exists. Loans at risk are reclassified at full value if the outstanding capital and interest are once again paid on time according to contractual agreements and if further credit risk requirements are fulfilled. The recovery of loans that had previously been written down and taken off the books is recorded in the income statement.

The existing procedures for the determination and calculation of specific value adjustments result in a comprehensive assessment of loans; accordingly, portfolio value adjustments are generally unnecessary.

Realised income from loans that are sold before their maturity or repaid early is recorded in the income statement under the position "Interest and discount income".

5.4 Securities borrowing and lending transactions

Securities borrowing and lending transactions are backed by collateral. In such transactions, the Group lends or borrows securities against securities or cash deposits as collateral. The Group also borrows securities from the securities portfolios of individual clients. Shares are used for securities borrowing and lending operations.

Securities received or delivered within the scope of securities borrowing or lending transactions are recognised or derecognised in the balance sheet only if control over the contractual rights connected with the securities is transferred.

In securities lending operations, the cash deposit received is recognised under cash in the balance sheet and a corresponding liability is recognised under "Cash deposits for loaned securities". In securities borrowing transactions, the cash deposit made is eliminated from the balance sheet and a corresponding receivable is recognised under "Cash deposits for borrowed securities".

Securities that the Group has transferred from its own portfolio to third parties and for which it has granted the recipient a right to resell or repledge are reclassified from the trading portfolio to the position "Loaned securities or securities deposited as collateral".

5.5 Repurchase and reverse repurchase transactions

Any repurchase transactions or reverse repurchase transactions are treated as secured financing transactions. As a rule, these include debt securities such as bonds or money market paper. The transactions are settled on the financial markets by means of standardised contracts.

In reverse repurchase transactions, securities are purchased and simultaneously resold as at a fixed or open date. The purchased

securities are not recorded in the Group's balance sheet as long as the transferring party retains the economic rights associated with the securities (assumption of price and credit risk, entitlement to current income and other property rights). The cash deposit paid in reverse repurchase operations is eliminated from cash and recognised in the balance sheet as a receivable under "Reverse repurchase transactions". This receivable reflects the Group's right to recover the cash deposit. Securities that the Group has received in a reverse repurchase transaction are recognised as off-balance-sheet transactions if the Group has a right to resell or repledge the securities. Conversely, the resale of the purchased securities is recognised under cash and under the balance sheet position "Liabilities from trading" (short sale). The position "Liabilities from trading" is measured at fair value. In addition to cash deposits, securities and guarantees can also be provided as collateral. Interest income from reverse repurchase transactions is accrued over the term of the corresponding transaction.

In repurchase transactions, securities are sold and simultaneously repurchased as at a fixed or open date. The cash deposit received in a repurchase transaction is recognised under cash, while the corresponding liability to return the securities is recognised in the balance sheet under "Repurchase transactions". The sold securities are kept on the Group's balance sheet according to their original classification as long as the economic rights are not transferred. Securities that the Group has transferred from its own portfolio to third parties and for which it has granted the recipient a right to resell or repledge are reclassified from the trading portfolio to the position "Loaned securities or securities deposited as collateral". In addition to cash deposits, securities and guarantees can also be accepted as collateral. Interest expense for repurchase transactions is accrued over the term of the corresponding transaction.

5.6 Property, plant and equipment

Property, plant and equipment includes properties, undeveloped land and fixtures in third-party properties, IT and telecommunications equipment, software (including software in development) and other fixed assets. Acquisition and production costs are carried as an asset if future economic income is likely to flow from them to the Group and the costs can be identified and reliably determined. Property, plant and equipment is depreciated on a straight-line basis over the estimated useful life as follows:

Property	Maximum 100 years
Fixtures in third-party properties	Maximum 10 years
IT and telecommunications equipment	Maximum 5 years
Software	Maximum 5 years
Other property, plant and equipment	Maximum 5 years

No depreciation is taken on undeveloped land. Impairment tests are performed on property, plant and equipment if events or circumstances suggest that the carrying value may have been impaired. If the carrying value exceeds the achievable income, the carrying value is written down.

5.7 Goodwill

Goodwill is the amount paid by the Group in excess of the fair value of the interest acquired in the net assets of a subsidiary or an associate.

In accordance with IFRS 3, goodwill is carried as an asset and allocated to the corresponding cash-generating unit (CGU). It is subject to an impairment test at least annually, or more often if there are indications of a potential decrease in value.

For this purpose, the carrying amount of the cash-generating unit to which goodwill was allocated is compared with its recoverable amount. The recoverable amount is the higher of the fair value of the CGU less costs to sell and its value in use.

Fair value less costs to sell is the amount that could be realised by the sale of a cash-generating unit in a transaction at market conditions between experienced parties after deduction of the sales costs.

The value in use is the present value of future cash flows expected to be derived from a cash-generating unit.

Should the carrying amount of the cash-generating unit exceed the recoverable amount, a goodwill adjustment charge is recognised in the income statement. The Asset Management, Investment Banking and Wealth Management business segments have been identified as cash-generating units.

5.8 Intangible assets

Intangible assets with finite useful lives

Intangible assets with finite useful lives mainly include the long-term client relationships acquired from the acquisition of a company. These assets are amortised on a straight-line basis over a period of up to ten years. Where necessary, a value adjustment is recognised in the income statement in addition to the amortisation.

Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives include assets in connection with the banking licence. The Valartis Group expects no end to the economic use of these assets. Accordingly, they are not amortised. However, an impairment test is performed on them at least annually, or more often if there are indications of a potential impairment. If the carrying value exceeds the achievable income, an impairment is recognised.

5.9 Value adjustments
Value adjustments are recorded if there are objective indications that receivables cannot be collected in full. They are calculated on the basis of the estimated recoverable amount. The recoverable amount corresponds to the cash value of the expected future cash flows, discounted at the original effective interest rate. Value adjustments are recorded in the balance sheet as a reduction in the carrying amount of the receivables and recognised in the income statement under "Value adjustments, provisions and losses".

5.10 Provisions
A provision is recognised if as a result of past events the Group has a current liability on the balance sheet that is likely to result in the outflow of resources, the amount of which can be reliably estimated.

5.11 Taxes and deferred taxes
Income taxes are based on the tax laws of each tax authority and are expensed in the period in which the related profits are made. Capital taxes are included in office and business expense. The current tax rate for the net profit is applied.

Deferred income taxes arising from temporal differences between the stated values of assets and liabilities in the consolidated balance sheet and their corresponding tax values are recognised as deferred tax claims or deferred tax liabilities. Deferred taxes are capitalised if there is likely to be enough taxable profit to offset these differences. In order to calculate deferred income taxes, the Group applies the tax rates expected to be applicable in the period in which the assets will be realised or the liabilities settled. Deferred taxes are recognised only to the extent it is likely they will arise in future. Tax claims and tax liabilities are offset against each other if they apply to the same tax subject and the same tax authority and if there is an enforceable right to their offsetting. Changes in deferred taxes are reported in the income statement under taxes. Deferred taxes related to changes that are recognised directly in shareholders' equity are directly charged or credited to shareholders' equity.

5.12 Leases
In the case of operating leases, the Group does not recognise leased assets in its books because ownership rights and duties from the object of the lease contract remain with the lessor. Expenses for operating leases are charged to the position "General expenses" on a straight-line basis over the contractual period.

5.13 Treasury shares and derivatives on treasury shares
Shares in Valartis Group AG held by the Group ("treasury shares") are deducted from equity at weighted average acquisition cost. Changes in fair value are not recorded. The difference between the sales proceeds from treasury shares and the corresponding acquisition cost is recognised under "Capital reserves". Derivatives on treasury shares that must be settled physically qualify as equity instruments and are recognised under "Capital reserves" in shareholders' equity. Changes in fair value are not recognised. When a contract is settled, the sales proceeds after costs are recognised under "Capital reserves" or the purchase price is recognised under "Treasury shares".

5.14 Assets under management
The calculation and identification of assets under management is performed according to the Swiss Financial Market Supervisory Authority guidelines on bank accounting and financial reporting regulations (FINMA Circular 08/2). Assets under management include all assets of private, corporate and institutional clients managed or held for investment purposes and assets in self-managed funds and investment companies of the Group. It essentially comprises all amounts due to clients, fixed deposits, fiduciary deposits and all valued assets. Assets under management deposited with third parties are also included if they are managed by a Group company. Pure custody assets (strict clearing accounts), on the other hand, are not included in the calculation of assets under management. Double counts show those assets which are included more than once, i.e. in multiple categories of assets under management requiring disclosure.

5.15 Pension funds
The Valartis Group maintains a number of pension funds in Switzerland and other countries for its employees. These include both defined-benefit and defined-contribution plans.

In the case of defined-benefit plans, the period costs are determined according to the assessment of external experts. The pension plans are generally based on years of insurance, age and pensionable salary. For funded defined-benefit plans, the under or overfunding of the present value of the claims in comparison to assets measured at market value is reported in the balance sheet under liabilities or assets (projected unit credit method) in consideration of any actuarial gains or losses not recognised and claims still to be offset.

A pension fund asset is only recorded when it results in an economic benefit for the Valartis Group. The Valartis Group reports part of the actuarial gains and losses as income or expenses if the balance of the cumulated, unrecognised actuarial gains and losses at the end of the previous reporting period exceeded the defined limit of 10% of either the present value of the pension liabilities or the pension fund assets, whichever is higher.

6. Estimates, Assumptions and Exercise of Discretion by Management

6.1 Basic principle
In applying the accounting principles, management is required to make numerous estimates and assumptions which can influence the disclosures made in the consolidated income statement, consolidated balance sheet and notes to the consolidated financial statements.

The actual results can deviate from these estimates.

The Valartis Group is confident that the consolidated financial statements present a true and fair view of the assets, financial and income situation.

Management reviews the estimates and assumptions on a continuous basis and adapts them to new knowledge and circumstances. This can have an effect on aspects of the consolidated financial statements including the following:

6.2 Goodwill and intangible assets
Among other factors, the value of goodwill and intangible assets is largely determined by the cash flow forecasts, the discount factor (weighted average cost of capital, WACC) and long-term client retention. The principal assumptions are listed in the notes to the consolidated financial statements. A change in assumptions can lead to disclosure of impairment in the subsequent year.

6.3 Income taxes
The current tax obligations reported as at the balance sheet date and the current tax expenses resulting for the reporting period are based in part on estimates and assumptions and can therefore deviate from the amounts determined in the future by the tax authorities. Deferred taxes are calculated at the tax rates which are expected to be applicable in the accounting period in which the asset will be realised or the liabilities settled. Changes in the expected tax rates and any unexpected reductions in the value of goodwill or intangible assets can have a significant effect on the income statement.

6.4 Provisions
The Valartis Group recognises provisions for imminent events if in the opinion of the responsible experts the probability that losses will occur is greater than the probability that they will not occur and if their amount can be reliably estimated. In judging whether the creation of a provision and its amount are reasonable, the best-possible estimates and assumptions as at the balance sheet date are applied. If necessary, these will be adjusted to reflect new knowledge and circumstances at a later date. New knowledge may have a significant effect on the income statement.

6.5 Actuarial assumptions
For the defined-benefit plans, statistical assumptions are made to estimate future trends. These include assumptions and estimates with regard to discount rates and expected rates of salary increases. The actuaries also use statistical information such as mortality tables and retirement probabilities in their actuarial calculations to determine the pension liabilities. Should these parameters change due to an altered economic situation or new market conditions, the later results can deviate significantly from the actuarial reports and calculations. In the medium term, such deviations can have an influence on the expenses and revenue arising from the employee pension plans.

7. Risk Management and Risk Control

7.1 Structure of risk management
Overview
Taking controlled risks and managing them professionally is the basis for a company's value-driven success. Accordingly, taking risks with a view to returns is central to risk management and risk control at the Valartis Group.

In order to meet the steady growth in requirements for risk management and risk control due to the new business activities and additional regulatory requirements, investments in technical resources were increased in 2008. The trading platform with integrated risk monitoring for investment banking and the software for preparing supervisory reports (Basel II) were implemented. In addition, regulations and internal directives were adjusted to the expanded business activity.

The risk policy defines the basic principles of the Valartis Group's risk management, the risk management process and the organisation as well as the corresponding system of limits and information flows. The Board of Directors reviews the appropriateness of the risk policy at least once a year.

Risk management organisation
In its role as the ultimate supervisory body, the Board of Directors is responsible for all risks of the Group and defines the risk policy. The Group Executive Board is responsible for operational implementation of the risk management and risk control principles and ensures that the defined limits are adhered to at all times. The management of risks is performed directly in the segments in question. The Risk Office is responsible for independent risk control on a Group level. This function also ensures the adherence to and constant monitoring of the risk management process based on the core elements, namely risk identification, risk measurement and assessment, risk steering and risk controlling.

In addition, the Board of Directors has periodically carried out adequate risk assessments and initiated any resulting measures

to ensure that the risk of a significant misrepresentation in the accounts can be considered minimal.

Risk reporting

The Valartis Group's risk policy distinguishes between strategic and business risk, market risk, credit risk, operational risk and liquidity risk.

The reporting obligations are clearly defined with regard to content, responsibility, recipient and frequency and include qualitative and quantitative data. Reports on market, credit and liquidity risks are generally submitted to the Group Executive Board and the Board of Directors on a monthly basis, but at least once a quarter. A detailed analysis of all the risk categories is made once a year. In extraordinary cases, the Board of Directors must be informed immediately.

7.2 Market risk

Market risk includes potential losses from unexpected changes in market prices such as interest rates, exchange rates, share prices and commodity prices, and volatility in such prices.

Market risk: investment banking and other securities portfolios

The Valartis Group's investment banking activities are primarily handled at Valartis Bank. The main focus is on the Swiss equity and options markets. Most risk positions originate in proprietary trading, business with own products such as warrants, certificates and structured products, the hedging of these products, and market-making activities. In November 2008, the Executive Board decided to drastically reduce the limits for proprietary trading. Own holdings in energy and CO_2 positions were moderately expanded.

Securities, commodities and derivative instruments in the trading book are valued at market prices or by means of a model.

The Investment Banking segment manages and monitors the risks with appropriate instruments that enable the monitoring of the risk positions while adhering to the defined value at risk, sensitivity, cluster and volume limits. Securities positions held in the trading book and in financial investments outside the Investment Banking segment are managed independently by the Group companies, adhering to the corresponding limits.

Value at risk (VaR) measures the magnitude of the loss for a portfolio that, under normal circumstances and for a specific probability, will not be exceeded over a given time horizon. In order to measure the value at risk, Investment Banking applies the historical simulation method. Here, historical market price changes are applied to the risk factors in determining the value of the current portfolio. Commodity price risk in relation to energy and CO_2 is exceptional in this respect; in this case VaR is calculated by means of a Monte Carlo simulation. Table 1 shows the Group's value at risk with a confidence level of 99% and a holding period of one day.

Table 1: Value at risk of the Valartis Group

in CHF million	31.12.2008	31.12.2007	Change
VaR %, 1 day	0.9	3.2	–2.3

In order to measure the equity requirements for market risk in the trading book, the standard approach is used at both Bank and Group level (see 7.6 Capital management and capital adequacy requirements).

Market risk: balance sheet structure

Balance sheet structure management involves the management of interest rate and currency risks outside the trading book. This includes all major interest rate and currency risks with various interest rate maturities and currency positions in assets, liabilities and off-balance-sheet positions.

Interest rate risks and currency exposures outside the trading book are mainly entered into by Valartis Bank; during the reporting year these were fairly minimal. In the other Group companies, market risk in the balance sheet is limited by limits defined in the risk policy and managed independently by the Group units.

Interest rate risk

The interest rate sensitivities of the market value of equity are shown in table 2. The table shows the changes in market value for each currency, given an interest rate movement of +/- 100 basis points across all maturities.

Table 2: Significant interest rate risks outside the trading book

in CHF million	31.12.2008 Interest rate sensitivity outside the trading book		31.12.2007 Interest rate sensitivity outside the trading book	
	+1%	–1%	+1%	–1%
CHF	+0.0	–0.0	+0.1	–0.1
EUR	+0.0	–0.0	+0.1	–0.1

Due to the maturity structure, the effect on income from interest rate risk is insignificant.

Currency risk

Table 3 shows the sensitivity with regard to movements in exchange rates of +/- 1%. For better transparency, currency risks from trading book positions were also included in this table, despite the fact that they are managed directly by the trading departments.

Table 3: Significant exchange rate risks in the trading and banking books

in CHF million	31.12.2008	Currency sensitivity	31.12.2007	Currency sensitivity
	+1%	–1%	+1%	–1%
EUR	+0.2	–0.2	+0.3	–0.3
USD	+1.1	–1.1	+0.8	–0.8
DZD	+0.2	–0.2	n.a.	n.a.
Übrige	+0.0	–0.0	+0.1	–0.1

7.3 Liquidity risk

Liquidity risk includes the risk that the Group may not have sufficient liquid funds available to meet its short-term payment obligations. Market liquidity risk is the risk of a loss due to a liquidity squeeze in traded products.

Management of liquidity risk

Operational liquidity management is delegated to in the individual Valartis Group companies, whereby these companies are restricted to their set limits. Valartis Bank AG performs the consolidated monitoring of adherence to legal minimum reserve and liquidity requirements and internal limits.

The Valartis Group aims to continually open up new, diversified sources of funding to ensure availability of the required liquidity at all times.

The table "Maturity structure of assets and liabilities" on pages 63 and 64 shows future cash flows based on the earliest possible contractual maturity, disregarding assumptions about the probability of individual cash flows.

7.4 Credit risk

Credit risk reflects the risk of losses due to failure by a counterparty to fulfil its contractual obligations. It includes default risks from direct credit transactions, default risks related to transactions connected to credit risks (such as OTC derivatives transactions, money market transactions, etc.), and default risks related to settlement.

Management of credit risk

In its issuing business, Valartis issues options in its own name and for the account of option writers. In order to reduce the credit risk of options for the account of third parties, in the case of call options all underlyings of the option writer are usually pledged in favour of Valartis Bank. In the case of put options, the option writer pays Valartis Bank a margin or cover.

The direct lending business is predominantly handled by Valartis Bank. There is still an active loan and an open loan commitment from the Real Estate Structured Finance unit. The number of Lombard loans for the Wealth Management segments currently remains low. In the management and monitoring of Lombard loans, the market value of the existing collateral is reduced by discount factors and continuously checked with regard to its saleability. Credit exposure must always remain within the limits specified by the Group Executive Board or the Board of Directors and is secured by the collateral value. The loan business of Group companies is relatively minor and limited by limits defined by the Board of Directors.

Table 4: Comparison of loan value and collateral value as at 31 December 2008

In transactions with other banks and brokers, care is taken that credit risk is entered into only with first-rate counterparties.

in million	Mortgage-backed	Other collateral	No collateral	Total
Loans				
Loan value (CHF)	10.8	3.2	91.4	105.4
Collateral value (CHF)	25.6	58.9	0.0	NA
Off-balance-sheet transactions				
Loan value (CHF)	15.4	0.0	43.6	59.0
Collateral value (CHF)	73.6	0.0	0.0	NA

At 31 December 2008, the Group had loans at risk of CHF 5.91 million (gross). These loans were covered by collateral with an estimated liquidation value of CHF 3.94 million. The uncovered portion of these loans (CHF 1.97 million) was written down and offset against amounts due from clients.

There were no non-performing loans at year-end.

Table 5: Amounts due from banks, by rating category, as at 31 December 2008

in million	AAA to AA-	A+ to A-	BBB+ and below	Not rated
Due from banks (CHF)	31.1	814.4	0	56.2

Within the framework of the loan or investment process, cluster risks with regard to groups of counterparties are specifically evaluated and consciously entered into or avoided. As at 31 December 2008, no equity was set aside for cluster risks.

Country risk mainly arises from interbank business. At 31 December 2008, foreign commitments totalled CHF 943.7 million, or 93.7% of the total lending volume.

7.5 Operational risk

Operational risk is the risk of losses due to faulty internal processes, procedures and systems, inappropriate behaviour by employees or external influences. The definition includes all legal and reputational risks but excludes strategic risks.

Management of operational risk

The basic responsibility for the business management of operational risk is delegated directly to the individual front and back-office units in the individual Group companies.

The identification of operational risk is therefore part of the ongoing management activities and is performed whenever new business activities, processes or products are introduced, and also at regular intervals for business activities, processes and products already implemented.

In the case of business-critical processes, additional key risk indicators are used.

The Board of Directors assesses and approves the Group's risk landscape for operational risk at least once a year.

Identified risks are essentially handled by the operational units within the prescribed framework. Decisions as to whether it is best to avoid, minimise, transfer or accept a risk are primarily based on cost/benefit analysis.

The ongoing monitoring of operational risk is, whenever possible, embedded in the operational processes. Separation of functions and a dual control principle are crucial elements in monitoring. Separate, process-independent monitoring is carried out by central units such as the Compliance Office and the Risk Office. Special attention is given to an actual-versus-target analysis in the identification, evaluation and handling of risks. The Board of Directors oversees the management of operational risk based on standardised reporting and ad hoc information.

7.6 Capital management and capital adequacy requirements

Capital management

Capital management is accomplished in an active and focused manner in compliance with statutory provisions and takes into consideration both internal goals and the needs of our clients and shareholders. We want to give our clients an adequate degree of security for their banking relationship with the Valartis Group. At the same time, shareholders should participate in the success of our Group through value creation and a consistent dividend policy. In capital management, we examine both the capital required to back our banking risks and our available equity to support the sustained growth of the Group and secure its credit quality. Projections of future capital requirements are made to assist in the control process.

Capital adequacy

The Valartis Group adopted the new capital adequacy regulations (Basel II) with effect from 1 January 2008. The disclosure of the information required under FINMA Circular 2008/22 is provided below. Under Basel II, various approaches are available to banks to calculate the capital adequacy for credit risk, market risk and operational risk. To fulfil the supervisory capital adequacy regulations, the Valartis Group employs the Swiss standard approach for credit risk, the standard approach for market risk and the basic indicator approach for operational risk. Capital adequacy for needs derived directly from risk-weighted assets is lower under Basel II than Basel I. However, this difference is largely offset by the operational risk that now has to be covered with capital. Goodwill and now also (under Basel II) intangible assets are deducted in the calculation of eligible capital, as are non-consolidated equity participations. The other tables with information on capital adequacy are based on the Swiss standard approach.

Management of own funds

The regulatory capital adequacy rules and own funds are determined and managed at Bank and Group level.

Capital adequacy is calculated using the market risk standard approach for market risk, and using the Swiss standard approach for credit risk. The Valartis Group does not weight the positions using external ratings and, in accordance with Article 50 para. 5 of the Swiss Federal Ordinance on Capital Adequacy (ERV), uses the weightings of the “not rated” rating category to calculate equity. Capital adequacy for operational risk is calculated according to the basic indicator approach.

Equity participations and scope of consolidation in connection with regulatory capital adequacy

Both in the reporting period and in the prior year, the scope of consolidation for the calculation of equity is identical to the scope of consolidation used in preparing the consolidated financial statements with the exception presented below. For further information, see Note 29 to the consolidated financial statements.

The participation in Eastern Property Holding was reported under "Associated Companies" as at 31 December 2008 in the consolidated financial statements. For the calculation of equity, the participation was consolidated proportionally.

There are no major equity participations that were neither fully or proportionally consolidated. Furthermore, no risks are known to us that would prevent the transfer of funds or equity within the Group.

Eligible capital and capital adequacy

The Valartis Group has no equity participations in the insurance sector. MCG Holding S.A., Baar, Canton of Zug, which holds a 50% stake in Valartis Group AG, has granted a subordinated loan in the amount of CHF 3 million to Valartis Group AG which fulfils the requirements of Articles 19 and 20 ERV in full. This corresponds to 1.5% of the eligible adjusted core capital of CHF 197.24 million. Valartis Group AG also received a subordinated loan from Anglo Irish Bank Corporation plc, Dublin, in the amount of CHF 35.8 million (EUR 24 million) which fulfils the requirements of Article 27 ERV. This corresponds to 18.2% of the applicable eligible core capital of CHF 197.24 million.

Table 6: Capital adequacy

CHF '000	Approach used	31.12.2008 Required capital	31.12.2007[1] Required capital
Required capital			
Credit risk	Swiss standard	40,907	19,027
Non-counterparty risks	Swiss standard	68,973	9,736
Market risks	Standard	15,713	71,850
Of which on interest instruments (general and specific market risk)	Standard	562	0
Of which on equity instruments	Standard	5,543	0
Of which on currencies and precious metals	Standard	9,291	0
Of which on commodities	Standard	317	0
Operational risk	Basic indicator	15,195	0
Total capital requirement		**140,788**	**100,613**
Eligible capital			
Gross core capital (equity and reserves)		284,470	234,624
Of which minority interests		46,990	0
Other elements to be deducted from core capital (goodwill and non-consolidated shareholdings)		–87,230	–38,314
Total eligible core capital		**197,240**	**196,310**
+ Supplementary capital and additional capital		37,692	0
– Other deductions from supplementary capital, additional capital and total capital		0	2,154
Total eligible capital		**234,932**	**194,156**
Ratio of eligible to required capital		**1.67**	**1.93**

1) Calculation of capital according to Basel I

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". See "Changes to accounting policies", section 3.3 "Other changes".

1. Trading Portfolio Assets and Financial Assets

Trading portfolio assets

		31.12.2008 CHF	31.12.2007 CHF
Debt instruments	Long	2,590,126	4,696,715
Equity instruments	Long	70,013,313	160,411,683
Investment fund units	Long	0	44,763,808
Total	**Long**	**72,603,439**	**209,872,206**
Equity instruments	Short	0	–7,071,162
Total	**Short**	**0**	**–7,071,162**
Total net trading portfolio assets		**72,603,439**	**202,801,044**

Financial assets

		31.12.2008 CHF	31.12.2007 CHF
Debt instruments	Long	6,526,614	0
Equity instruments	Long	34,388,219	14,951,385
Investment fund units	Long	0	0
Total net financial assets		**40,914,833**	**14,951,385**

2. Open Derivative Financial Instruments (Trading Instruments)

	Positive replacement value CHF	Negative replacement value CHF	Contract volume CHF
Currencies/precious metals			
Forward contracts	519,791	1,031,615	139,038,730
Combined interest rate/currency swaps	421,044	58,753	21,411,748
Futures	0	0	0
Options (OTC)	0	0	0
Options (exchange-traded)	0	0	0
Total at 31 December 2008	**940,835**	**1,090,368**	**160,450,478**
Total at 31 December 2007	**376,524**	**592,621**	**92,590,620**
Equity instruments/indices			
Forward contracts	0	0	0
Swaps	0	0	0
Futures	0	0	8,166,030
Options (OTC)	483,552	617,749	51,029,244
Options (exchange-traded)	0	5,853	163,500
Structured products	0	3,970,303	2,474,983
Total at 31 December 2008	**483,552**	**4,593,905**	**61,833,757**
Total at 31 December 2007	**6,051,386**	**23,025,286**	**298,379,158**
Other			
Forward contracts	653,934	31,185	685,119
Swaps	0	0	0
Futures	0	0	206,700
Options (OTC)	0	0	0
Options (exchange-traded)	0	913,554	913,554
Structured products	0	0	1,495,320
Total at 31 December 2008	**653,934**	**944,739**	**3,300,693**
Total at 31 December 2007	**383,068**	**2,115,924**	**21,290,357**
Total open derivative financial instruments at 31 December 2008	**2,078,321**	**6,629,012**	**225,584,928**
Total open derivative financial instruments at 31 December 2007	**6,810,978**	**25,733,831**	**412,260,135**

3. Goodwill and Other Intangible Assets

	Goodwill CHF	Intangible assets with finite useful lives CHF	Intangible assets with indefinite useful lives CHF	Total CHF
Acquisition costs				
Carrying value at 31 December 2006	20,692,683	10,000,000	5,000,000	35,692,683
Investments	0	0	0	0
Disinvestments	0	0	0	0
Change in scope of consolidation	933,232	4,149,400	0	5,082,632
Foreign exchange translation differences	0	0	0	0
Carrying value at 31 December 2007	21,625,915	14,149,400	5,000,000	40,775,315
Investments	0	0	0	0
Disinvestments	0	0	0	0
Change in scope of consolidation	12,744,637	42,209,154	0	54,953,791
Foreign exchange translation differences	0	0	0	0
Carrying value at 31 December 2008	**34,370,552**	**56,358,554**	**5,000,000**	**95,729,106**
Cumulative amortisation/impairment				
Carrying value at 31 December 2006	0	–1,046,575	0	–1,046,575
Amortisation	0	–1,414,940	0	–1,414,940
Losses from impairment	0	0	0	0
Foreign exchange translation differences	0	0	0	0
Carrying value at 31 December 2007	0	–2,461,515	0	–2,461,515
Amortisation	0	–1,414,940	0	–1,414,940
Losses from impairment	0	0	0	0
Change in scope of consolidation	0	–5,697,758	0	–5,697,758
Foreign exchange translation differences	0	0	0	0
Carrying value at 31 December 2008	**0**	**–9,574,213**	**0**	**–9,574,213**
Net carrying value at 31 December 2008	**34,370,552**	**46,784,341**	**5,000,000**	**86,154,893**
Net carrying value at 31 December 2007	**21,625,915**	**11,687,885**	**5,000,000**	**38,313,800**

Goodwill and intangible assets from acquisitions

The Group has purchased various companies since its establishment. In general, these acquisitions were used to take over client relationships and to obtain certain expertise or products. The following table shows the costs arising in connection with the goodwill and intangible assets from acquisitions for each company.

	Purchase date	Goodwill CHF	Intangible assets CHF
Valartis Group AG	14.12.2005	20,692,683	15,000,000
Valaxis Asset Management S.A.	01.01.2007	933,232	4,149,400
Valartis Bank (Austria) AG	19.12.2008	12,744,637 [1)]	42,209,154
Total		**34,370,552**	**61,358,554**

1) EUR 8,551,726

4. Other Income

	31.12.2008	31.12.2007
Income from real estate	0	0
Income from the sale of fixed assets	0	0
Income from the sale of financial assets available for sale	2,650,133	0
Income from associates	41,467,832	–1,556,021
Fluctuation in value of commitments to acquire minority shares	0	0
Income from business combination (negative goodwill)	14,023,795	0
Other income	–1,404,714	0
Total	**56,737,046**	**–1,556,021**

Income from the sale of financial assets available for sale		
Interest rate instruments	0	0
Equity instruments	2,650,133	0
Total	**2,650,133**	**0**

Income from associates		
Impairments	–4,401	–1,556,021
Appreciation	41,472,233	0
Sale proceeds	0	0
Total	**41,467,832**	**–1,556,021**

For additional information on associates, see Note 30, “Associates Companies”. The income from business combination is itemised on page 57.

Acquisition of Anglo Irish Bank (Austria) AG

On 19 December 2008, Valartis Group AG completed the full acquisition announced on 5 September 2008 of Anglo Irish Bank (Austria) AG together with its subsidiary AIBC Anglo Irish Bank (Austria) Kapitalanlagegesellschaft mbH. Valartis acquired all voting shares in Anglo Irish Bank (Austria) AG. By taking this step, the Valartis Group is significantly expanding its international private banking business and strengthening its position in eastern Europe, exploiting the bank's location in Vienna.

The carrying values and fair values of the assets and liabilities acquired in this context were as follows as at the acquisition date:

CHF '000	Carrying amount 31.12.2008	Step up to fair value	Fair value
Cash	12,138		12,138
Due from banks	863,018		863,018
Due from clients	121,229		121,229
Trading securities/financial investments	7,404		7,404
Equity participations	0		0
Property, plant and equipment	2,143	47,712	49,855
Intangible assets	16	36,496	36,512
Deferred tax claims	0	14,709	14,709
Accrued and deferred assets	4,069		4,069
Other assets	4,836		4,836
Total assets	**1,014,853**	**98,917**	**1,113,770**
Due to banks	23,128		23,128
Due to clients	854,639		854,639
Other financial liabilities at fair value	0		0
Deferred taxes	0	21,052	21,052
Accrued and deferred liabilities	7,758		7,758
Provisions	7,343		7,343
Other liabilities	5,503		5,503
Total liabilities	**898,371**	**21,052**	**919,423**
Fair value of acquired net assets	116,482	77,865	194,347
Goodwill arising from acquisition			12,745
Purchase price paid			207,092
Cash acquired from acquisition			–12,138
Cash outflow from acquisition			194,954

The total purchase price of the acquisition was CHF 207.1 million.

As the acquisition was made just before year-end, the companies acquired have not yet made a significant contribution to the consolidated earnings of the Valartis Group. If the acquisition had taken place at the beginning of 2008, operating income would have been CHF 91.3 million (instead of CHF 52.0 million) and Group net profit would have been approx. CHF 16.6 million (instead of CHF 3.3 million).

The goodwill of CHF 12.7 million resulting from the transaction mainly represents the value of the anticipated synergies from the acquisition and the entry into the eastern European market. The goodwill is allocated to the Wealth Management segment and is subject to an annual impairment test.

Consolidation of ENR Russia Invest Ltd.
With effect from 30 June 2008, the Group acquired a 38.32% stake in ENR Russia Invest Ltd., an investment company domiciled in Geneva. The Group's stake is now more than 50%.

Details on the fair value of the acquired assets

	Fair value at acquisition in CHF
Purchase price	
Purchase price paid (in cash)	32,494,906
Consisting of:	
Due from banks	50,856,193
Due from clients	1,527,900
Investments at fair value through profit and loss	64,432,481
Accrued and deferred assets	346,753
Other assets	387,600
Treasury shares	1,522,229
Due to banks	–11,635
Due to clients	–8,705,058
Other liabilities	–500,000
Subtotal	**109,856,463**
Minority interests	–66,999,608
Total	**42,856,855**

Since in connection with the acquisition of ENR Russia Invest Ltd. the purchase price was significantly lower than the corresponding net assets, the Valartis Group was able to realise income from business combination (negative goodwill) in the total amount of CHF 14,023,795 in accordance with IFRS 3 (Business Combinations).

The company has been fully consolidated since 30 June 2008. In conformity with IFRS 3, the income statement of ENR Russia Invest Ltd. is only consolidated from the time of the acquisition. The net loss of ENR Russia Invest Ltd. since 1 July 2008 is CHF 11,926,697 and has been deducted from the net profit of the Valartis Group. If the acquisition had taken place on 1 January 2008, the Group's operating income and net profit (loss) would have changed as follows:

	CHF
Total Group operating income	52,036,208
Income of ENR Russia Invest Ltd. prior to acquisition	12,459,364
Total	**64,495,572**

	CHF
Total Valartis Group net loss	–3,971,863
Loss of ENR Russia Invest Ltd. prior to acquisition	–9,374,944
Total	**–13,346,807**
After deduction of minority shares	–398,838

Examination of impairment for cash-generating units with goodwill

The carrying amount of the goodwill is CHF 34.37 million. Of this, CHF 10.11 million is attributable to the Investment Banking segment, CHF 10.58 million to Asset Management and CHF 13.68 million to Wealth Management. To conduct the impairment test, goodwill is allocated to the cash-generating units. The Valartis Group carried out its test as at 31 December 2008.

In accordance with IFRS 3, goodwill is allocated to the respective cash-generating unit (CGU), which is subject to an annual impairment test. To calculate any impairment, the carrying amount of the unit is compared with the recoverable amount. The recoverable amount of the unit is the higher of amounts from the corresponding present value less costs to sell and value in use.

The basis for the determination of the value in use is the cash flow estimates of the cash-generating unit. These cash flow projections are based on the financial plans prepared by management. They are founded on justifiable assumptions which present management's best assessment of the economic development of the CGU. Cash flow projections outside of the five-year period are taken into consideration by means of a perpetual annuity. A growth rate for the perpetual annuity is not taken into consideration due to the strong dependence of the cash flow on external factors. In the capital asset pricing model (CAPM), a weighted average cost of capital (WACC) of about 11% is used.

The Valartis Group uses various valuation methods to determine the fair value less costs to sell. The market valuation is based on the analysis of comparable listed companies. A theoretical market value of the cash-generating unit is determined by applying to the cash-generating unit the multiples at which the shares in the comparable listed companies are trading. The two comparison groups are European investment banks and other Swiss banks.

Changes in the underlying capital cost rates by +1% or -1% lead to a change in the value in use of CHF -20.56 million or CHF 24.79 million respectively.

Carrying values of goodwill and intangible assets

The carrying values of goodwill and intangible assets are allocated to the cash-generating units at 31 December 2008 as follows:

	Goodwill CHF '000	Intangible assets CHF '000	Total CHF '000
Valartis Group AG	20,693	11,954	32,647
Valaxis Asset Management S.A.	933	3,319	4,252
Valartis Bank (Austria) AG	12,745	36,511	49,256
Total	**34,371**	**51,784**	**86,155**

5. Property, Plant and Equipment

	Fixtures in third-party properties CHF	IT and tele-communications equipment CHF	Other property, plant and equipment CHF	Real estate CHF	Software CHF	Total CHF
Acquisition costs						
Carrying value at 31 December 2006	0	51,465	513,812	0	0	565,277
Investments	3,284,819	1,134,678	605,060	13,992,895	851,459	19,868,911
Acquisition of subsidiaries	0	3,477	10,268	0		13,745
Disinvestments	0	0	0	0	0	0
Foreign exchange translation differences	0	541	64	187,514	214	188,333
Carrying value at 31 December 2007	3,284,819	1,190,161	1,129,204	14,180,409	851,673	20,636,266
Investments	31,915	853,922	994,404	37,150,137 [1)]	807,482	39,837,860
Acquisition of subsidiaries	585,934	0	4,354,894	31,445,586	32,178,980	68,565,394
Disinvestments	0	–52,704	–4,306	–9,511,674	0	–9,568,684
Foreign exchange translation differences	0	–17,219	–700,508	–4,533,210	–6,700	–5,257,637
Carrying value at 31 December 2008	**3,902,668**	**1,974,160**	**5,773,688**	**68,731,248**	**33,831,435**	**114,213,199**
Cumulative depreciation						
Carrying value at 31 December 2006	0	–51,465	–513,812	0	0	–565,277
Depreciation	–218,891	–219,299	–73,963	0	–81,159	–593,312
Acquisition of subsidiaries	0	–1,110	–5,239	0	0	–6,349
Disinvestments	0	0	0	0	0	0
Foreign exchange translation differences	0	–130	–56	0	–43	–229
Carrying value at 31 December 2007	–218,891	–272,004	–593,070	0	–81,202	–1,165,167
Depreciation	–332,100	–494,198	–151,919	0	–375,863	–1,354,080
Acquisition of subsidiaries	–388,752	0	–2,995,928	–2,406,063	–12,919,651	–18,710,394
Disinvestments	0	52,704	0	0	0	52,704
Foreign exchange translation differences	0	6,613	–40,944	0	1,572	–32,759
Carrying value at 31 December 2008	**–939,743**	**–706,885**	**–3,781,861**	**–2,406,063**	**–13,375,144**	**–21,209,696**
Net carrying value at 31 December 2008	**2,962,925**	**1,267,275**	**1,991,827**	**66,325,185**	**20,456,291**	**93,003,502**
Net carrying value at 31 December 2007	**3,065,928**	**918,157**	**536,134**	**14,180,409**	**770,471**	**19,471,099**

1) Construction of a shopping, recreation and office complex in Algeria

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". See "Changes to accounting policies", section 3.3 "Other changes".

6. Deferred Taxes

	2008 CHF	2007 CHF
Deferred tax claims		
Tax loss carryforwards		
Position at 1 January	270,201	0
Change taken through profit and loss	8,786,195	268,193
Change not taken through profit and loss	109	0
Change in scope of consolidation	14,709,261	0
Foreign exchange translation differences	–50,118	2,008
Total deferred tax claims at 31 December	**23,715,648**	**270,201**
Deferred tax liabilities		
Position at 1 January	3,665,016	3,062,947
Change taken through profit and loss	4,075,323	–310,799
Change not taken through profit and loss	1,219,743	912,868
Change in scope of consolidation	21,051,979	0
Foreign exchange translation differences	0	0
Position at 31 December	**30,012,061**	**3,665,016**
Expiry of non-capitalised tax allowances for losses		
Within 1 year	0	0
From 1 to 5 years	0	0
After 5 years	1,799,398	0
Total	**1,799,398**	**0**

7. Value Adjustments and Provisions

	Default risk (delcredere and country risk) CHF	Other business risks CHF	Other provisions CHF	Total value adjustments and provisions CHF	Value adjustments offset against assets CHF	**Total according to 2008 balance sheet CHF**	Total according to 2007 balance sheet CHF
Position at 1 January	0	0	1,423,000	1,423,000	0	**1,423,000**	**1,423,000**
Utilised/released in accordance with designated purpose	0	0	0	0	0	**0**	**0**
Newly formed and charged to income statement	0	0	260,000	260,000	0	**260,000**	**0**
Released and credited to income statement	0	0	–105,000	–105,000	0	**–105,000**	**0**
Change in scope of consolidation	1,974,465	0	7,342,817	9,317,282	–1,974,465	**7,342,817**	**0**
Foreign exchange translation differences	0	0	0	0		**0**	**0**
Position at 31 December	**1,974,465**	**0**	**8,920,817**	**10,895,282**	**–1,974,465**	**8,920,817**	**1,423,000**

The position "Value adjustments and provisions" mainly includes provisions for operational risk. The expected outflow of money is after more than five years.

8. Accrued and Deferred Assets

	2008 CHF	2007 CHF
Management and performance fees	2,274,102	28,505,242
Accrued interest	778,574	854,715
Change in scope of consolidation	3,932,487	0
Other accrued and deferred assets	5,644,205	1,879,431
Total	**12,629,368**	**31,239,388**

9. Accrued and Deferred Liabilities

	2008 CHF	2007 CHF
Trailer fees	9,680,257	3,599,443
Accrued salaries, bonuses and social security benefits	5,386,129	11,426,336
Other accrued and deferred liabilities	2,141,734	6,364,306
Total	**17,208,120**	**21,390,085**

10. General Expense

	2008 CHF	2007 CHF
Occupancy expense	2,828,409	1,698,547
IT expense	4,024,789	2,487,321
Information and telecommunications expense	1,362,075	1,990,468
Office and business expense	14,294,342	11,256,522
Other general expense	622,739	42,609
Total	**23,132,354**	**17,475,467**

11. Maturity Structure

2008	Demand CHF '000	Subject to notice CHF '000	Due within 3 months CHF '000	Due within 3 to 12 months CHF '000	Due within 1 to 5 years CHF '000	Due after 5 years CHF '000	Total CHF '000
Assets							
Cash	66,899	0	0	0	0	0	66,899
Cash deposits for borrowed securities	0	0	0	0	0	0	0
Due from banks	658,828	50	139,680	103,113	0	0	901,671
Due from clients	26,537	8,740	28,306	2,305	26,217	13,256	105,361
Trading portfolio assets	72,525	79	0	0	0	0	72,604
Financial assets available for sale	40,914	0	0	0	0	0	40,914
Other financial assets at fair value	0	0	0	0	472	184	656
Associated companies	0	0	0	0	0	89,549	89,549
Property, plant and equipment	85,434	0	0	0	1,578	5,991	93,003
Accrued and deferred assets	6,898	132	3,456	1,535	608	0	12,629
Positive replacement values	611	0	770	69	180	449	2,079
Other assets	851	0	188	4,813	0	79	5,931
Goodwill and other intangible assets	0	0	0	0	16	86,139	86,155
Deferred tax claims	9,007	0	0	0	0	14,709	23,716
Total at 31 December 2008	**968,504**	**9,001**	**172,400**	**111,835**	**29,071**	**210,356**	**1,501,167**
Debt							
Due to banks	44,446	0	29,252	0	74,709	16,179	164,586
Cash deposits for loaned securities	0	0	0	0	0	0	0
Due to clients	326,005	6,027	461,241	111,787	3,200	61,392	969,652
Trading portfolio liabilities	0	0	0	0	0	0	0
Other financial liabilities at fair value	0	0	0	0	0	0	0
Negative replacement values	600	0	535	5,085	270	139	6,629
Taxes	230	0	0	9,258	0	0	9,488
Accrued and deferred liabilities	4,347	0	3,296	9,513	52	0	17,208
Other liabilities	8,371	0	413	0	0	0	8,784
Value adjustments and provisions	155	0	0	1,702	1,332	5,732	8,921
Deferred tax liabilities	5,606	0	0	1,048	4,192	19,166	30,012
Total at 31 December 2008	**389,760**	**6,027**	**494,737**	**138,393**	**83,755**	**102,608**	**1,215,280**

11. Maturity Structure

2007	Demand CHF '000	Subject to notice CHF '000	Due within 3 months CHF '000	Due within 3 to 12 months CHF '000	Due within 1 to 5 years CHF '000	Due after 5 years CHF '000	Total CHF '000
Assets							
Cash	4,014	0	0	0	0	0	4,014
Cash deposits for borrowed securities	0	0	9,900	0	0	0	9,900
Due from banks	40,818	0	63,703	0	0	0	104,521
Due from clients	33,674	14,488	0	414	0	0	48,576
Trading portfolio assets	209,872	0	0	0	0	0	209,872
Financial assets available for sale	14,951	0	0	0	0	0	14,951
Other financial assets at fair value	0	0	95	0	0	0	95
Associated companies	0	0	0	0	0	2,154	2,154
Property, plant and equipment	0	0	0	0	0	19,471	19,471
Accrued and deferred assets	31,240	0	0	0	0	0	31,240
Positive replacement values	0	0	442	414	4,851	1,104	6,811
Other assets	527	0	0	0	0	0	527
Goodwill and other intangible assets	0	0	0	0	0	38,314	38,314
Deferred tax claims	0	0	0	0	0	270	270
Total at 31 December 2007	**335,096**	**14,488**	**74,140**	**828**	**4,851**	**61,313**	**490,716**
Debt							
Due to banks	1,835	0	45,394	10,500	0	0	57,729
Cash deposits for loaned securities	0	0	15,000	0	0	0	15,000
Due to clients	61,543	0	10,221	4,883	0	0	76,647
Trading portfolio liabilities	7,071	0	0	0	0	0	7,071
Other financial liabilities at fair value	0	0	10,928	8,756	0	0	19,684
Negative replacement values	0	0	3,387	10,774	11,573	0	25,734
Taxes	13,795	0	0	0	0	0	13,795
Accrued and deferred liabilities	21,390	0	0	0	0	0	21,390
Other liabilities	4,179	0	0	0	0	0	4,179
Value adjustments and provisions	0	0	0	0	0	1,423	1,423
Deferred tax liabilities	3,665	0	0	0	0	0	3,665
Total at 31 December 2007	**113,478**	**0**	**84,930**	**34,913**	**11,573**	**1,423**	**246,317**

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". See "Changes to accounting policies", section 3.3 "Other changes".

12. Assets and Liabilities by Domestic and Foreign Positions

	31.12.2008		
	Domestic CHF	Foreign CHF	Total CHF
Assets			
Cash	54,759	12,140	**66,899**
Cash deposits for borrowed securities	0	0	**0**
Due from banks	83,750	817,921	**901,671**
Due from clients	13,208	92,153	**105,361**
Trading portfolio assets	57,301	15,302	**72,603**
Financial assets available for sale	10,075	30,840	**40,915**
Other financial assets at fair value	656	0	**656**
Associated companies	1,928	87,621	**89,549**
Property, plant and equipment	6,193	86,810	**93,003**
Accrued and deferred assets	1,203	11,427	**12,630**
Positive replacement values	1,424	654	**2,078**
Other assets	5,931	0	**5,931**
Goodwill and other intangible assets	86,155	0	**86,155**
Deferred tax claims	8,991	14,725	**23,716**
Total assets	**331,574**	**1,169,593**	**1,501,167**
Liabilities			
Due to banks	62,915	101,671	**164,586**
Cash deposits for loaned securities	0	0	**0**
Due to clients	113,257	856,395	**969,652**
Trading portfolio liabilities	0	0	**0**
Other financial liabilities at fair value	0	0	**0**
Negative replacement values	6,107	522	**6,629**
Taxes	4,443	5,045	**9,488**
Accrued and deferred liabilities	13,881	3,327	**17,208**
Other liabilities	7,638	1,146	**8,784**
Value adjustments and provisions	0	8,921	**8,921**
Deferred tax liabilities	30,012	0	**30,012**
Equity	285,887	0	**285,887**
Total liabilities and shareholders' equity	**524,140**	**977,027**	**1,501,167**

Because total assets surpassed CHF 1 billion for the first time as at 31 December 2008, this item is reported in the notes for the first time, without any reference to prior-year figures in accordance with Article 25 c et seq. of the Swiss Federal Banking Ordinance.

13. Assets by Country or Region

	31.12.2008	
	CHF	Proportion in %
Switzerland	331,574	22.1%
Euro zone	926,123	61.7%
Rest of Europe	149,013	9.9%
North America	12,443	0.8%
Caribbean	30,173	2.0%
Other	51,841	3.5%
Total	**1,501,167**	**100%**

Because total assets surpassed CHF 1 billion for the first time as at 31 December 2008, this item is reported in the notes for the first time, without any reference to prior-year figures in accordance with Article 25 c et seq. of the Swiss Federal Banking Ordinance.

14. Balance Sheet by Currency

	CHF CHF '000	EUR CHF '000	USD CHF '000	Other CHF '000	Total CHF '000
Assets					
Cash	54,754	12,118	20	7	66,899
Cash deposits for borrowed securities	0	0	0	0	0
Due from banks	100,333	327,287	358,818	115,233	901,671
Due from clients	23,705	46,158	25,964	9,534	105,361
Trading portfolio assets	57,099	2,885	12,044	575	72,603
Financial assets available for sale	10,114	11,104	19,697	0	40,915
Other financial assets at fair value	656	0	0	0	656
Associated companies	1,928	221	87,400	0	89,549
Property, plant and equipment	6,085	49,973	0	36,946	93,004
Accrued and deferred assets	2,259	5,912	3,287	1,171	12,629
Positive replacement values	1,424	654	0	0	2,078
Other assets	5,931	0	0	0	5,931
Goodwill and other intangible assets	86,155	0	0	0	86,155
Deferred tax claims	23,700	16	0	0	23,716
Total at 31 December 2008	**374,143**	**456,328**	**507,230**	**163,466**	**1,501,167**
Liabilities					
Due to banks	70,618	52,660	4,027	37,281	164,586
Cash deposits for loaned securities	0	0	0	0	0
Due to clients	125,833	363,460	376,596	103,763	969,652
Trading portfolio liabilities	0	0	0	0	0
Other financial liabilities at fair value	0	0	0	0	0
Negative replacement values	5,683	945	1	0	6,629
Taxes	4,429	5,059	0	0	9,488
Accrued and deferred liabilities	13,942	2,909	0	357	17,208
Other liabilities	7,572	1,212	0	0	8,784
Value adjustments and provisions	–3,557	12,478	0	0	8,921
Deferred tax liabilities	30,012	0	0	0	30,012
Equity	285,887	0	0	0	285,887
Total at 31 December 2008	**540,419**	**438,723**	**380,624**	**141,401**	**1,501,167**

Because total assets surpassed CHF 1 billion for the first time as at 31 December 2008, this item is reported in the notes for the first time, without any reference to prior-year figures in accordance with Article 25 c et seq. of the Swiss Federal Banking Ordinance.

15. Net Income from Commission and Service Fee Business

Net income from commission and service fee business mainly consists of income from the Investment Banking and Asset Management segments. The latter includes management fees and performance fees.

16. Personnel Expense

	2008 CHF	2007 CHF
Salaries and bonuses	26,714,069	27,195,326
Social security benefits including pension plans	5,114,189	3,497,067
Share-based payments	0	399,005
Other personnel expense	3,267,823	1,441,633
Total	**35,096,081**	**32,533,031**

17. Depreciation and Amortisation, Value Adjustments, Provisions and Losses

	2008 CHF	2007 CHF
Depreciation of tangible assets	1,354,080	593,312
Amortisation of intangible assets	1,414,940	1,414,940
Change in value adjustments, provisions and losses taken through profit and loss	155,000	0
Total	**2,924,020**	**2,008,252**

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Software is now included under the position "Property, plant and equipment". See "Changes to accounting policies", section 3.3 "Other changes".

18. Income Taxes

	2008 CHF	2007 CHF
Current income and capital taxes	–4,144,139	–10,700,069
Reclassification of capital taxes to administrative expense	191,529	42,609
Change in deferred taxes	9,096,994	578,992
Total	**5,144,384**	**–10,078,468**

Analysis of income tax charges		
Net profit/loss before taxes	–9,116,247	59,260,969
Expected income tax rate	16,0%	16,0%
Expected income taxes	–1,458,599	9,481,755
Net profit with other tax rate (tax effect)	–5,543,201	–5,289,472
Prior-year adjustments	458,022	473,580
Appropriation of non-capitalised tax loss carryforwards (tax effect)	0	0
Non-deductible expenses	818,675	4,900,000
Other	580,719	512,605
Effective income tax	**–5,144,384**	**10,078,468**
Effective income tax rate	56.4%	17.0%

19. Earnings per Share

	31.12.2008	31.12.2007
Net profit of Valartis Group AG (CHF)	3,296,134	49,914,828
Weighted average number of shares	5,000,000	5,000,000
Less weighted average number of treasury shares	–55,084	–60,204
Undiluted weighted average number of shares	4,944,916	4,939,796
Relevant outstanding share options, number of shares	250,000	250,000
Diluted weighted average number of shares	5,194,916	5,189,796
Earnings per share of Valartis Group AG (undiluted, CHF)	0.67	10.1
Earnings per share of Valartis Group AG (diluted, CHF)	0.63	9.6

Diluted earnings per share takes into account the diluting effect of potential full conversion of employee options.

20. Pledged Assets

	31.12.2008 CHF	31.12.2007 CHF
Amounts due from cash deposits in connection with securities borrowing	0	9,900,000
Other amounts due from banks and clients	1,049,000	15,005,116

The transactions were carried out on market terms.

21. Lending and Repurchase Transactions with Securities

	31.12.2008 CHF	31.12.2007 CHF
Book value of receivables from cash deposits in securities borrowing and reverse repurchase transactions	0	9,900,000
Book value of liabilities from cash deposits in securities lending and repurchase transactions	0	15,000,000
Book value of securities in the Bank's possession that have been lent or given as collateral in securities lending and borrowing operations or have been transferred in repurchase transations	43,904,250	18,967,350
of which those for which the right to resell or repledge as collateral has been granted without restriction	43,904,250	18,967,350
Fair value of securities received as collateral or borrowed in securties lending and borrowing operations received through reverse-repurchase transactions for which the right to resell or repledge as collateral has been granted without restriction.	43,904,250	28,908,597
of which fair value of securities resold or repledged as collateral	0	6,235,162

22. Contingent Liabilities/Fiduciary Transactions/Irrevocable Commitments

	31.12.2008 CHF	31.12.2007 CHF
Guarantees in favour of third parties[1]	35,070,282	17,049,900
Fiduciary transactions	134,847,185	301,428,253
Irrevocable commitments	15,450,715	18,438,582

1) For most contingent liabilities in favour of third parties, corresponding collateral has been deposited with Group companies.

23. Liabilities from Operating Leases

At 31 December 2008, there were a number of non-terminable operating leases for other property, plant and equipment, mostly used for the Group's business activities. The most important leases generally contain extension and termination clauses. There are no dependent lease payments or purchase options for the leased objects. Also, there are no restrictions with regard to future leases. The following table shows the minimum liabilities from non-terminable leases for real estate and other property and equipment:

	31.12.2008 CHF	31.12.2007 CHF
Remaining term to maturity up to 1 year	706,344	727,553
Remaining term to maturity up to 5 years	1,360,567	2,066,911
Remaining term to maturity over 5 years	0	0
Liabilities from operating leases	**2,066,911**	**2,794,464**

In financial year 2008, expenses totalling CHF 727,553 (previous year: CHF 219,238) from operating leases were included in general expense.

24. Assets under Management

	31.12.2008 CHF	31.12.2007 CHF
Assets in self-managed funds	1,559,374,436	1,681,771,794
Assets with management mandates	516,222,804	1,593,339,211
Subtotal (including double counts)	2,075,597,240	3,275,111,005
Other assets under management	1,939,762,062	963,444,125
Total	**4,015,359,302**	**4,238,555,130**
Of which double counts	–40,782,896	–308,955,032
Net new asset inflow (outflow)[1]	136,946,671	27,916,649

1) Net new asset inflow (outflow) includes all deposits and withdrawals plus incoming and outgoing deliveries of non-monetary assets. In particular, performance-related changes in value and interest and dividend payments do not constitute inflows or outflows. This item includes the acquired assets under management of Anglo Irish Bank (Austria) AG of CHF 1.6 billion.

25. Share Capital

	31.12.2008 CHF	31.12.2007 CHF
Share capital	5,000,000	5,000,000
Number of bearer shares	5,000,000	5,000,000
Nominal value per share	1	1
Equity per share of Valartis Group AG (before appropriation of profit)	49	50

A dividend of CHF 2.75 per share was distributed for financial year 2007. For financial year 2008, the Board of Directors is proposing to the Shareholders' Meeting a dividend of CHF 0.50 per share.

26. Treasury Shares

	31.12.2008	31.12.2007
Position at 1 January	41,188	29,240
Purchases	157,186	526,228
Sales	–123,392	–514,280
Position at 31 December	**74,982**	**41,188**

During the reporting period, 157,186 shares were purchased at CHF 43.32 each and 123,392 shares were sold at CHF 55.21 each. In the prior-year period, 526,228 shares were purchased at CHF 92.74 each and 514,280 shares were sold at CHF 92.42 each (average price). At the balance sheet date, the Valartis Group had 74,982 treasury shares at a weighted average acquisition value of CHF 52.88.

27. Shareholder Structure

	31.12.2008 in %	31.12.2007 in %
MCG Holding S.A., Baar, Canton of Zug	50.0	50.0

MCG Holding S.A., Baar, Canton of Zug, holds 50% of the capital and the voting rights of Valartis Group AG. The beneficial owner of MCG Holding S.A. is a shareholder group consisting of Gustav Stenbolt, Geneva, Philipp LeibundGut, Herrliberg, Canton of Zurich, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. There are no other shareholders with participating interests greater than 3% of the voting shares.

28. Business Segments

The Valartis Group distinguishes between primary and secondary segment reporting. The business segments form the primary format for the segment reporting, while the geographical segments represent the secondary reporting format.

Business Segments
Valartis Group is divided into the three operational business segments Asset Management, Wealth Management and Investment Banking. To the extent permissible and material, the balance sheet and income statement items are directly allocated to these business segments. The regional segment reporting breaks down into "Switzerland" and "Other countries". Reporting is based on operating locations.

Corporate Center
Items that cannot be directly allocated to the segments are recognised under "Corporate Center". Consolidation items are also included under "Corporate Center".

Primary segment reporting

2008	Investment Banking CHF '000	Asset Management CHF '000	Wealth Management CHF '000	Corporate Center CHF '000	Total CHF '000
Operating income	–28,896	73,584	3,812	3,536	52,036
Administrative expense	–20,176	–26,366	–6,416	–5,270	–58,228
Gross profit	**–49,072**	**47,218**	**–2,604**	**–1,734**	**–6,192**
Depreciation	–1,004	–1,262	–503	0	–2,769
Value adjustments, provisions and losses	0	0	0	–155	–155
Segment result before taxes	**–50,076**	**45,956**	**–3,107**	**–1,889**	**–9,116**
Taxes					5,144
Net profit					–3,972
Net profit (loss) attributable to minority interests					7,268
Net profit attributable to shareholders of Valartis Group AG					**3,296**
Total assets	**300,875**	**479,378**	**1,137,590**	**–416,676**	**1,501,167**
Total liabilities	**227,305**	**221,479**	**1,041,329**	**–274,833**	**1,215,280**
Total investments	**1,548**	**28,721**	**123,519**	**0**	**153,788**
Assets under management at 31 December 2008	**686,658**	**1,391,794**	**1,936,908**	**0**	**4,015,360**
Number of employees at 31 December 2008	**53**	**78**	**110**	**15**	**256**

1) Income from associates is included in full in the segment result before taxes for the Asset Management segment and is CHF 41,467,832.

Primary segment reporting

2007	Investment Banking CHF '000	Asset Management CHF '000	Wealth Management CHF '000	Corporate Center CHF '000	Total CHF '000
Operating income	36,927	71,509	3,337	–495	111,278
Administrative expense	–18,149	–26,242	–3,257	–2,360	–50,008
Gross profit	**18,778**	**45,267**	**80**	**–2,855**	**61,270**
Depreciation	–431	–127	–35	–1,415	–2,008
Value adjustments, provisions and losses	0	0	0	0	0
Segment result before taxes	**18,347**	**45,140**	**45**	**–4,270**[1]	**59,262**
Taxes					–10,079
Net profit					49,183
Net profit (loss) attributable to minority interests					732
Net profit attributable to shareholders of Valartis Group AG					**49,915**
Total assets	**276,535**	**156,316**	**5,159**	**52,706**	**490,716**
Total liabilities	**164,694**	**29,883**	**501**	**51,239**	**246,317**
Total investments	**3,718**	**14,985**	**5,397**	**0**	**24,100**
Assets under management at 31 December 2007	**1,097,787**	**2,804,878**	**335,890**	**0**	**4,238,555**
Number of employees at 31 December 2007	**41**	**59**	**9**	**22**	**131**

1) The loss from this associate is included in full in the segment result before taxes and is CHF 388,000 (prior year: CHF 0).

Secondary segment reporting

	31.12.2008			31.12.2007		
	Domestic CHF	Foreign CHF	Total CHF	Domestic CHF	Foreign CHF	Total CHF
Operating income	52,258,971	–222,763	52,036,208	58,038,084	53,239,635	111,277,719
Assets	369,535,903	1,131,630,776	1,501,166,679	304,258,738	186,457,614	490,716,352
Investments	721,524	153,066,837	153,788,361	10,852,745	14,098,798	24,951,543

The regional segment reporting breaks down into “Switzerland” and “Other countries”. Reporting is based on operating locations.

29. Group Companies

In addition to the figures for Valartis Group AG, Baar, Canton of Zug, the consolidated financial statements include the accounts of the following companies:

Company name	Registered office	Purpose	Currency	Share capital	Share of capital and votes
Valartis Bank AG	Zurich, CH	Bank	CHF	20,000,000	100.0%
Valartis Asset Management S.A.	Geneva, CH	Investment advisor	CHF	1,896,210	100.0%
Valartis Wealth Management S.A.	Geneva, CH	Asset management	CHF	2,000,000	100.0%
Valartis S.A.	Geneva, CH	Investment advisor	CHF	100,000	100.0%
Valaxis Asset Management S.A.	Geneva, CH	Asset management	CHF	200,000	100.0%
Valartis International Ltd.	Tortola, BVI	Investment advisor	USD	50,000	100.0%
Eastern Property Management Ltd.	Tortola, BVI	Investment advisor	USD	50,000	100.0%
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment advisor	EUR	12,500	100.0%
Valartis Fund Advisory S.A.	Luxembourg, L	Investment advisor	EUR	91,166	100.0%
Valartis Fund Management S.à.r.l.	Luxembourg, L	Investment advisor	EUR	125,000	100.0%
Valartis Europe S.A.	Vienna, A	Investment advisor	EUR	1,010,000	100.0%
Darsi Investment Ltd.	Tortola, BVI	Financial company	EUR	7,000,000	100.0%
SCCA Finance Ltd.	Tortola, BVI	Financial company	EUR	50,000	55.5%
Société des Centres Commerciaux Algérie SPA	Algiers, DZ	Trading company	DZD	10,000,000	55.5%
ENR Russia Invest S.A.	Geneva, CH	Financial company	CHF	31,118,544	50.06%
Valartis (Austria) GmbH	Vienna, A	Financial company	EUR	1,000,000	100%
Valartis (Wien) GmbH	Vienna, A	Financial company	EUR	100,000	100%
Valartis Bank (Austria) AG	Vienna, A	Bank	EUR	6,570,000	100%
Valartis Asset Management (Austria) Kapitalanlagegesellschaft mbH	Vienna, A	Investment advisor	EUR	2,500,000	100%

30. Associated Companies

	2008 CHF	2007 CHF
Position at 1 January	2,153,479	3,709,500
Additions	45,927,517	0
Value adjustments [1]	41,467,832	–1,556,021
Position at 31 December	**89,548,828**	**2,153,479**

1) In addition, value adjustments were recorded in retained earnings prior to 30 June 2008 (prior to reporting as an associate).

Jelmoli Bonus Card AG

Company	Registered office	Purpose	Share capital CHF	Share of capital and votes
Jelmoli Bonus Card AG	Zurich, CH	Financial company	7,500,000	27.5%

Jelmoli Bonus Card AG is the issuer of the Visa Bonus Card. As at 3 July 2006, Valartis Bank AG had a 27.5% share of the capital and votes in Jelmoli Bonus Card AG. A shareholders' agreement and cooperation agreement exist between Jelmoli Bonus Card AG and Valartis Bank AG.

Valartis Bank AG is a principal member of the Visa organisation and is responsible for processing a daily collective payment of Jelmoli Bonus Card AG to VISA. The following table gives a snapshot of Jelmoli Bonus Card AG.

	31.12.2008		31.12.2007	
	Total CHF '000	Stake 27,5%	Total CHF '000	Stake 27.5%
Assets	153,251	42,144	125,714	34,571
Liabilities	145,016	39,879	117,883	32,418
Equity	8,235	2,265	7,831	2,153
Sales	21,186	5,826	15,978	4,394

The reporting date chosen for the application of the equity method is 31 December. The figures are based on the unaudited financial statements as at 31 December.

Eastern Property Holdings Ltd.

Company	Registered office	Purpose	Share capital USD	Share of capital
Eastern Property Holdings Ltd (EPH)	British Virgin Islands	Real estate company	414,418,955	19.87%

As at 31 December 2008, the Valartis Group held a 20% stake in Eastern Property Holdings (BVI) Limited (EPH). EPH is a real estate company that invests in commercial property in eastern Europe (in particular in Moscow and St Petersburg). It is listed on the SIX Swiss Exchange. The share price on the balance sheet date was USD 19.90. EPH's annual accounts had not yet been published at the time of preparing the consolidated financial statements. The valuation for the consolidated accounts was based on a net cash value per share of USD 85.95, which was derived from cautious assumptions and estimates by the management of Valartis Group AG. It is uncertain whether the actual net cash value per share may deviate that arrived at under the valuation approach of Valartis Group AG on the basis of unaudited and unpublished figures of EPH and the assumptions and estimates made by management.

The Valartis Group mainly expanded its holding in EPH in the second half of 2008. The equity method, which is based on net asset valuation, resulted in a CHF 41.5 million appreciation gain after deferred taxes.

The following table provides summarised financial information on the Group's investment in EPH as at 31 December 2008. As EPH's annual accounts have not yet been published, these figures are based on estimates.

	CHF m
Share in the assets and liabilities reported on the associate's balance sheet	
Assets	101.7
Debt	14.3
Net assets (carrying value of the investment)	**87.4**

31. Related Parties and Companies

Related parties and companies are individuals or companies that have the capability to control the Group or have a significant influence on operational and financial decisions. Transactions (such as securities transactions, payments, etc.) with related parties are carried out within the framework of regular business activity. Members of the Board of Directors and employees have staff terms for securities business (brokerage commission and custody charges). Other transactions with related parties are at market rates. The following tables offer an overview of transactions with related parties and companies.

2008	Management in key positions[1] CHF '000	Qualified investors[2] CHF '000	Associated companies[3] CHF '000	Other related parties and companies[4] CHF '000	Total CHF '000
Due from clients	0	19	2,961	242	3,222
Due to clients	229	5,424	4,330	485	10,468
Loans to governing bodies	0	0	0	0	0
Interest income	0	0	0	0	0
Interest expense	3	22	44	17	86
Other income	0	8,157	2,773	440	11,370
Other expense	436	701	0	0	1,137
Number of allocated options	0	0	0	0	0

2007	Management in key positions[1] CHF '000	Qualified investors[2] CHF '000	Associated companies[3] CHF '000	Other related parties and companies[4] CHF '000	Total CHF '000
Due from clients	2	9,095	10	5,547	14,654
Due to clients	520	3,002	8,763	9,006	21,291
Loans to governing bodies	0	0	0	0	0
Interest income	0	7	0	0	7
Interest expense	29	6	27	43	105
Other income	11	11,619	0	24,220	35,850
Other expense	0	5,834	0	0	5,834
Number of allocated options	0	0	0	0	0

1) Members of the Board of Directors and the Group Executive Board (excluding qualified investors).
2) See Notes to the Consolidated Financial Statements, page 71.
3) Jelmoli Bonus Card AG; Eastern Property Holdings Ltd.
4) These include all other related parties and companies who have a close personal, economic, legal or actual relationship with a member of the Board of Directors or the Group Executive Board.

32. Remuneration of the Members of the Board of Directors and Group Executive Board

	Direct and indirect remuneration CHF	Loans and credits CHF	Number of shares	Blocking period in years
Remuneration of and loans and advances to current members of the Board of Directors[1)]				
Erwin W. Heri, Chairman	393,636	0	7,514	3
Stefan Holzer, Vice-Chairman	337,737	0	10,380	3
Philipp LeibundGut, Member[2)]	303,653	0	0	0
Jean-François Ducrest, Member[3)]	66,928	0	0	0
Total 2008	**1,101,954**	**0**	**17,894**	**0**
Total 2007	**1,506,558**	**0**	**4,645**	**0**
Remuneration of and loans and advances to former members of the Board of Directors[1)]				
Timothy Rogers, Member[4)]	38,141	0	0	0
Total 2008	**38,141**	**0**	**0**	**0**
Total 2007	**63,569**	**0**	**0**	**0**

	No. of options	Blocking period in years	Strike price in CHF	Expiry date
Remuneration of and loans and advances to current members of the Board of Directors[1)]				
Erwin W. Heri, Chairman	0	0	0	0
Stefan Holzer, Vice-Chairman	0	0	0	0
Philipp LeibundGut, Member	0	0	0	0
Jean-François Ducrest, Member	0	0	0	0
Total 2008	**0**	**0**	**0**	**0**
Total 2007	**0**	**0**	**0**	**0**
Remuneration of and loans and advances to former members of the Board of Directors[1)]				
Timothy Rogers, Member	0	0	0	0
Total 2008	**0**	**0**	**0**	**0**
Total 2007	**0**	**0**	**0**	**0**

	Direct and indirect remuneration CHF[5)]	Loans and credits CHF[5)]	Number of shares	Blocking period in years
Remuneration of and loans and advances to members of the Group Executive Board[1)]				
Total 2008	**2,904,632**	**0**	**0**	**0**
Total 2007	**7,511,155**	**0**	**0**	**0**
Of which member with the highest amount in 2008 (Gustav Stenbolt)	959,483	0	0	0
Of which member with the highest amount in 2007 (Timothy Rogers)	2,156,831	0	0	0

1) Remuneration is accounted for in the financial year to which it is economically allocated. Comparisons with prior years are not necessarily meaningful.
2) This position also includes remuneration paid to Philipp LeibundGut as an employee of Valartis Asset Management SA.
3) Member of the Board of Directors with effect from 6 May 2008.
4) This position also includes remuneration to Timothy Rogers in his function as a member of the Group Executive Board in the period to 31 January 2008. He stood down from the Board of Directors with effect from 6 May 2008.
5) In 2008 and 2007, there was no remuneration of or loans and advances to members of the Group Executive Board that did not conform to market conditions. No options were allocated to members of the Group Executive Board in 2008 and 2007.

33. Equity Participations

	Number of bearer shares	Nominal value in CHF	Share of votes in %
Major shareholders			
MCG Holding S.A., Baar, Canton of Zug	2,500,000	2,500,000	50.0
Total 2008	**2,500,000**	**2,500,000**	**50.0**
Total 2007	**2,500,000**	**2,500,000**	**50.0**
Current members of the Board of Directors and related parties			
Erwin W. Heri, Chairman	26,150	26,150	0.5
Stefan Holzer, Vice-Chairman	41,729	41,729	0.8
Philipp LeibundGut, Member[1)]	368,534	368,534	7.4
Jean-François Ducrest, Member	500	500	0.0
Total 2008	**436,913**	**436,913**	**8.7**
Total 2007	**502,311**	**502,311**	**10.1**
Current members of the Group Executive Board and related parties			
Gustav Stenbolt, CEO[1)]	1,816,454	1,816,454	36.3
Hanspeter Kaspar, CFO	0	0	0.0
Reto Peczinka, Head Investment Banking	15,725	15,725	0.3
Felix Morf, Head Asset Management	0	0	0.0
Eric Berthelot, Head Wealth Management	27,700	27,700	0.6
Total 2008	**1,859,879**	**1,859,879**	**37.2**
Total 2007	**1,019,039**	**1,019,039**	**20.3**

1) The shares held by Gustav Stenbolt, Timothy Rogers and Philipp LeibundGut are already included in the shares held by MCG Holding S.A.

MCG Holding S.A., Baar, Canton of Zug, holds 50% of the capital and the voting rights of Valartis Group AG. The beneficial owner of MCG Holding S.A. is a shareholder group consisting of Gustav Stenbolt, Geneva, Philipp LeibundGut, Herrliberg, Canton of Zurich, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. There are no other shareholders with participating interests greater than 3% of the voting shares.

34. Options

	2008			2007		
	Number of options	Exchange ratio	Strike price CHF	Number of options	Exchange ratio	Strike price CHF
Current members of the Board of Directors and related parties						
Erwin W. Heri, Chairman	10,000	1:1	85	10,000	1:1	85
Stefan Holzer, Vice-Chairman	10,000	1:1	85	10,000	1:1	85
Philipp LeibundGut, Member	10,000	1:1	85	10,000	1:1	85
Jean-François Ducrest, Member	0			n/a		
Total	**30,000**			**30,000**		
Current members of the Group Executive Board and related parties						
Gustav Stenbolt, CEO	15,000	1:1	85	15,000	1:1	85
Hanspeter Kaspar, CFO	0			n/a		
Reto Peczinka, Head Investment Banking[1)]	25,000	1:1	85	25,000	1:1	85
Felix Morf, Head Asset Management	0			n/a		
Eric Berthelot, Head Wealth Management[2)]	0			n/a		
Total	**40,000**			**40,000**		

1) Until the end of April 2009
2) From 22 September 2008

35. Employee Share Options

On receipt, the shares or options received pass into the irrevocable ownership of the employees. Accordingly, the vesting period is the past financial year, when the corresponding services were rendered. The allocated shares and options are subject to a three or five-year blocking period respectively. Regardless of whether shares or options are received, all costs resulting from the share option plan are expensed in the period in which the services were rendered (the vesting period).

The imputed market value per share corresponds to the market price of the share at the date of granting, less a discount for the blocking period of 6% for each full blocking year. In 2008, the market value was CHF 14.45 per share (previous year: CHF 72.13).

The imputed value per option corresponds to the market value at the date of granting less a discount for the blocking period of approx. 16%. The Black Scholes option pricing model was used to determine market price. The expected volatility was determined by looking at comparable options traded on the market. No options were awarded in 2008.

36. Employee Pensions

Pension plans are in place for the majority of Valartis Group employees. The pension plans provide benefits in the event of death, disability, retirement or termination of employment. At the balance sheet date, liabilities to pension institutions totalled CHF 20,795 (previous year: CHF 279,354).

In Switzerland, employers and employees contribute to pension institutions. According to IAS 19, Swiss pension institutions are considered defined-benefit plans because of their interest guarantee and prescribed conversion rate for annuities. For pension plans having certain characteristics of defined-benefit plans, the present value of the pension obligations is determined according to actuarial calculations using the projected unit credit method. The calculations are performed by independent experts and are based on the years of service completed and the projected covered salary at retirement age or at the time of the pension event (death, disability, departure). The most recent actuarial calculations were made as at 31 December 2008.

In the event that the balance of cumulated unrecorded actuarial profits or losses at the end of the prior-year period exceeds 10% of the market value of the assets and 10% of the present value of the pension plans' liabilities at that time, the higher of the parts of the unrecorded actuarial profits and losses exceeding the threshold values is booked to the income statement over the remaining years of service.

Actuarial information for defined-benefit pension plans:

	31.12.2008 CHF '000	31.12.2007 CHF '000
Balance sheet items		
Present value of pension liabilities	13,954	9,225
Market value of plan assets	10,054	8,943
Uncovered pension liabilities	**3,900**	**282**
Unrecognised actuarial loss	–799	–552
Total net liabilities/assets[1]	**3,101**	**–270**

1) In accordance with statutory regulations in Austria, Valartis Bank (Austria) AG is not obligated to segregate the pension plans into individual foundations as required under Swiss law. The pension benefits are not offset by plan assets and are therefore carried in full by Valartis Bank (Austria) AG; accordingly, they are included under "Other provisions". According to Swiss principles (static calculation), none of the pension funds in Switzerland were underfunded at end-2008.

	2008 CHF '000	2007 CHF '000
Change in net liabilities/assets on the balance sheet		
Net liabilities at 1 January	–270	–6
Net pension cost of the employer	310	430
Employer contributions	–388	–694
Addition arising from change in scope of consolidation	3,449	0
Net liabilities at 31 December	**3,101**	**–270**

Expense from employee pension plans		
Annual pension costs	720	819
Interest on pension liabilities	246	220
Expected return on plan assets	–268	–267
Past service cost from change in plan	0	352
Total pension expense	**698**	1,124
Employee contributions	–388	–694
Net pension cost of the employer	**310**	430

	2008 CHF '000	2007 CHF '000
Change in pension liabilities		
Present value of pension obligations as at 1 January	9,225	2,149
Increase in pension liabilities	0	4,252
Annual pension costs	720	819
Interest on pension liabilities	246	220
Paid out benefits and vested benefits	–3,331	1,822
Actuarial gains	30	–37
Addition arising from change in scope of consolidation	7,064	0
Present value of pension liabilities at 31 December	**13,954**	**9,225**

	2008 CHF '000	2007 CHF '000
Change in pension assets		
Market value of available pension assets at 1 January	8,943	2,146
Increase in pension liabilities	0	3,900
Employee contributions	388	694
Employer contributions	388	694
Paid out benefits and vested benefits	–3,331	1,822
Expected return on plan assets	268	267
Investment loss	–217	–580
Addition arising from change in scope of consolidation	3,615	0
Market value of available assets at 31 December	**10,054**	**8,943**

	31.12.2008 in %	31.12.2007 in %
Actuarial assumptions		
Discount rate	3.25–5.50	3.25
Expected return on plan assets	3.50	3.50
Expected rate of salary increases	1.50–2.00	1.50
Change in retirement assets	3.25–3.50	3.25

More than 95% of the plan assets of the collective pension institution are made up of insurance contracts and assets deposited with an insurance company.

37. Fair Value of Financial Instruments

Due to their short-term nature, the fair value of the positions due from and due to banks and clients, and accrued and deferred assets and liabilities is close to their carrying amount. The fair value of other financial instruments corresponds to their carrying amount.

38. Financial Instruments

The fair value is based on quoted market prices or price quotations from dealers, provided the financial instrument is traded on a representative market. For other financial instruments, a generally accepted valuation method is used to determine the fair value. Financial assets and liabilities in the banking book are measured at their carrying amount.

	Quoted market prices	Measurement method based on market data	31.12.2008	Quoted market prices	Measurement method based on market data	31.12.2007
Financial assets – trading book						
Trading portfolio assets	70,072,286	2,531,153	72,603,439	209,872,206	0	209,872,206
Of which listed	44,297,690	0	44,297,690	177,544,388	0	177,544,388
Positive replacement values	1,602,519	475,802	2,078,321	1,534,122	5,276,856	6,810,978
Other financial assets at fair value	656,005	0	656,005	95,232	0	95,232
Financial liabilities – trading book						
Trading portfolio liabilities	0	0	0	7,071,162	0	7,071,162
Of which listed	0	0	0	7,071,162	0	7,071,162
Negative replacement values	2,045,820	4,583,192	6,629,012	14,157,717	11,576,114	25,733,831
Other financial liabilities at fair value	0	0	0	19,684,073	0	19,684,073
Trading book profit/loss[1]			–56,426,094			23,008,237
Financial assets – banking book						
Financial investments held to maturity	0	0	0	0	0	0
Profit/loss from financial investments held to maturity[1]	0	0	0			0
Financial assets available for sale	40,914,833	0	40,914,833	14,951,385	0	14,951,385
Profit/loss from financial assets available for sale[1]	–2,951,245	0	–2,951,245			–229,469
Loans and receivables	1,007,031,903	0	1,007,031,903	162,996,784	0	162,996,784
Financial liabilities – banking book						
Financial liabilities	–1,134,237,957	0	1,134,237,957	–149,375,318	0	–149,375,318

1) In both reporting periods, no income was recognised from estimates of fair value using measurement methods not based on market data. Also, no income was recognised from fluctuations in fair value due to a change in own credit risk.

39. Events after the Balance Sheet Date

There were no events requiring disclosure after the balance sheet date.

Auditor's Report on the Consolidated Financial Statements

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To the General Meeting of

Valartis Group AG, Baar

Zurich, 1 April 2009

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Valartis Group, which comprise the income statement, balance sheet, changes in equity capital, cash flow statement and notes (Pages 34 to 82) for the year ended 31 December 2008.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Without qualifying our opinion, we draw attention to note 30 "associated companies" of the consolidated financial statements of Valartis Group, where a material uncertainty regarding the valuation of the associated entity Eastern Property Holdings Ltd, Tortola (BVI) is described. At the time of our audit the consolidated financial statement respectively the net asset value of this associated entity was neither published nor audited and therefore a final assessment is not yet possible.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

Cataldo Castagna
Licensed audit expert
(Auditor in charge)

Patrick Schwaller
Licensed audit expert


We have more than 100 years
of experience in private banking.

Experienced.

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Valartis Group AG
Financial Statements 2008

Income Statement

Income

	1.1.-31.12.2008 CHF	1.1.-31.12.2007 CHF
Securities income	–2,368,430	–685,397
Dividend income	19,348,864	12,141,762
Commission income	0	0
Total income	**16,980,434**	**11,456,365**

Expenses

Office and business expense	716,111	872,269
Personnel expense	100,000	155,890
Interest expense	1,678,811	1,434,899
Commission expense	65,786	0
Impairments	203,888	0
Taxes	4,337	–6,371
Total expense	**2,768,933**	**2,456,687**
Net profit	**14,211,501**	**8,999,678**

Balance Sheet

Assets

	Notes	31.12.2008 CHF	31.12.2007 CHF
Current assets			
Securities in the trading portfolio		584,842	3,001,280
Due from banks		30,511	0
Due from clients		0	0
Due from Group companies		75,760,127	0
Accrued and deferred assets		114,857	0
Total current assets		**76,490,337**	**3,001,280**
Fixed assets			
Equity participations	2	204,370,819	109,418,920
Total fixed assets		**204,370,819**	**109,418,920**
Total assets		**280,861,156**	**112,420,200**

Liabilities

Liabilities			
Due to banks		74,709,154	0
Due to clients		3,700,003	0
Due to Group companies		147,160,546	58,143,427
Accrued and deferred liabilities		685,241	132,062
Total liabilities		**226,254,944**	**58,275,489**
Shareholders' equity			
Share capital	3	5,000,000	5,000,000
General legal reserve		1,000,000	1,000,000
Reserve for treasury shares	5	3,187,944	3,973,947
Free reserve		31,140,766	35,106,086
Retained earnings			
Profit brought forward from previous year		66,001	65,000
Net profit		14,211,501	8,999,678
Total shareholders' equity		**54,606,212**	**54,144,711**
Total liabilities and shareholders' equity		**280,861,156**	**112,420,200**

Notes

1. Guarantees in Favour of Third Parties

	31.12.2008 CHF	31.12.2007 CHF
Guarantees in favour of Valartis Bank AG (certificates)	0	1,862,845

The company belongs to the VAT group of the Valartis Group and is jointly and severally liable for the Group's VAT liability to the tax authorities.

2. Equity Participations

Company name	Registered office	Purpose	Currency	Share capital	31.12.2008 Share of capital and votes	31.12.2007 Share of capital and votes
Valartis Bank AG	Zurich, CH	Bank	CHF	20,000,000	100%	100%
Valartis Asset Management S.A.	Geneva, CH	Investment advisor	CHF	1,896,210	100%	100%
Valartis Wealth Management S.A.	Geneva, CH	Asset management	CHF	2,000,000	100%	100%
Valartis S.A.	Geneva, CH	Investment advisor	CHF	100,000	100%	100%
Valaxis Asset Management S.A.	Geneva, CH	Asset management	CHF	200,000	100%	100%
Valartis International Ltd.	Tortola BVI	Investment advisor	USD	50,000	100%	100%
Eastern Property Management Ltd.	Tortola BVI	Investment advisor	USD	50,000	100%	100%
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment advisor	EUR	12,500	100%	100%
Valartis Fund Advisory S.A.	Luxembourg, L	Investment advisor	EUR	91,166	100%	100%
Valartis Fund Management S.à.r.l.	Luxembourg, L	Investment advisor	EUR	125,000	100%	100%
Valartis (Wien) GmbH	Vienna, AT	Financial company	EUR	100,000	100%	0%

3. Share Capital

	31.12.2008	31.12.2007
Share capital (CHF)	5,000,000	5,000,000
Number of bearer shares	5,000,000	5,000,000
Nominal value per share (CHF)	1	1

4. Conditional Capital

	31.12.2008	31.12.2007
Conditional capital (CHF)	250,000	250,000
Number of bearer shares	250,000	250,000
Nominal value per share (CHF)	1	1

At its Shareholders' Meeting of 14 December 2005, Valartis Group AG approved the creation of conditional capital of CHF 250,000 (divided into 250,000 bearer shares of Valartis Group AG with a nominal value of CHF 1 each) for an employee share option programme as follows: excluding existing shareholders' subscription rights, the Company's share capital shall be increased by a maximum of CHF 250,000 by issuing a maximum of 250,000 bearer shares, to be fully paid up, with a nominal value of CHF 1 each; the increase shall be carried out by means of options granted to employees of the Company or one of its Group companies or to members of the Board of Directors within the framework of an employee share option plan to be approved by the Board of Directors. Issuance below market price is permitted. The Board of Directors shall specify the details.

After introduction of the conditional capital, a share option plan was set up. The exercise of these options will have a diluting effect. The formal listing of the bearer shares of Valartis Group AG stemming from the conditional capital was applied for at the SIX Swiss Exchange on 28 December 2005, and its approval was secured.

5. Treasury Shares

	31.12.2008	31.12.2007
Number of shares in Valartis Bank AG's trading portfolio	54,212	5,028
Number of shares in Valartis Group AG's trading portfolio	20,770	36,160
Reserve for treasury shares (CHF)[1]	3,187,944	3,973,947

1) In 2008, 157,186 shares were purchased by Valartis Bank AG at CHF 43.32 each, and 123,392 shares were sold at CHF 55.21 each (average prices).

6. Shareholder Structure

	31.12.2008 in %	31.12.2007 in %
MCG Holding S.A., Baar, Canton of Zug	50.0	50.0

The beneficial owners of MCG Holding are Gustav Stenbolt, Geneva, Tidesea Ltd., Gibraltar (100%-controlled by Gustav Stenbolt, Geneva), Philipp LeibundGut, Herrliberg, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. The following are considered qualified investors: a) Gustav Stenbolt, who holds 36.3% of the voting rights (31.9% of the share capital) of Valartis Group AG through Tidesea Ltd., Gibraltar, and MCG Holding S.A., Baar, Canton of Zug; b) Philipp LeibundGut, who holds 7.4% of the voting rights (9.7% of the share capital) of Valartis Group AG through MCG Holding S.A., Baar, Canton of Zug; c) Tudor Global Trading LLC, Greenwich, USA, which holds 6.1% of the voting rights (8.1% of the share capital) of Valartis Group AG through MCG Holding S.A., Baar, Canton of Zug.

7. Remuneration of the Members of the Board of Directors

See the 2008 Valartis Group Annual Report for details of remuneration.

8. Equity Participations

See the 2008 Valartis Group Annual Report for details of equity participations.

9. Options

See the 2008 Valartis Group Annual Report for details of options.

10. Risk Assessment

At its meeting of 26 June 2008, the Board of Directors discussed the risk profile of the company and decided to adopt appropriate measures for significant risks.

For more information on the risk assessment, see the Valartis Group Annual Report.

11. Events after the Balance Sheet Date

There were no events after the balance sheet date requiring disclosure.

Proposal of the Board of Directors to the Annual Shareholders' Meeting

The Board of Directors will submit the following proposal for the distribution of profit to the Annual Shareholders' Meeting on 5 May 2009:

	2008 CHF	2007 CHF
Profit brought forward from previous year	66,000	65,000
Net profit	14,211,501	8,999,678
Retained earnings	14,277,501	9,064,678
Allocations from/to free reserves	0	4,751,322
Subtotal	14,277,501	13,816,000
Dividend on capital entitled to dividend payments	–2,500,000	–13,750,000
Profit to be carried forward	**11,777,501**	**66,000**
Dividend per bearer share entitled to dividend payments	0.50	2.75

Auditor's Report on the Consolidated Financial Statements

ERNST & YOUNG

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To the General Meeting of

Valartis Group AG, Baar

Zurich, 1 April 2009

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Valartis Group AG, which comprise the income statement, balance sheet and notes (Pages 90 to 95) for the year ended 31 December 2008.

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.

Member of the Swiss Institute of Certified Accountants and Tax Consultants

Opinion
In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

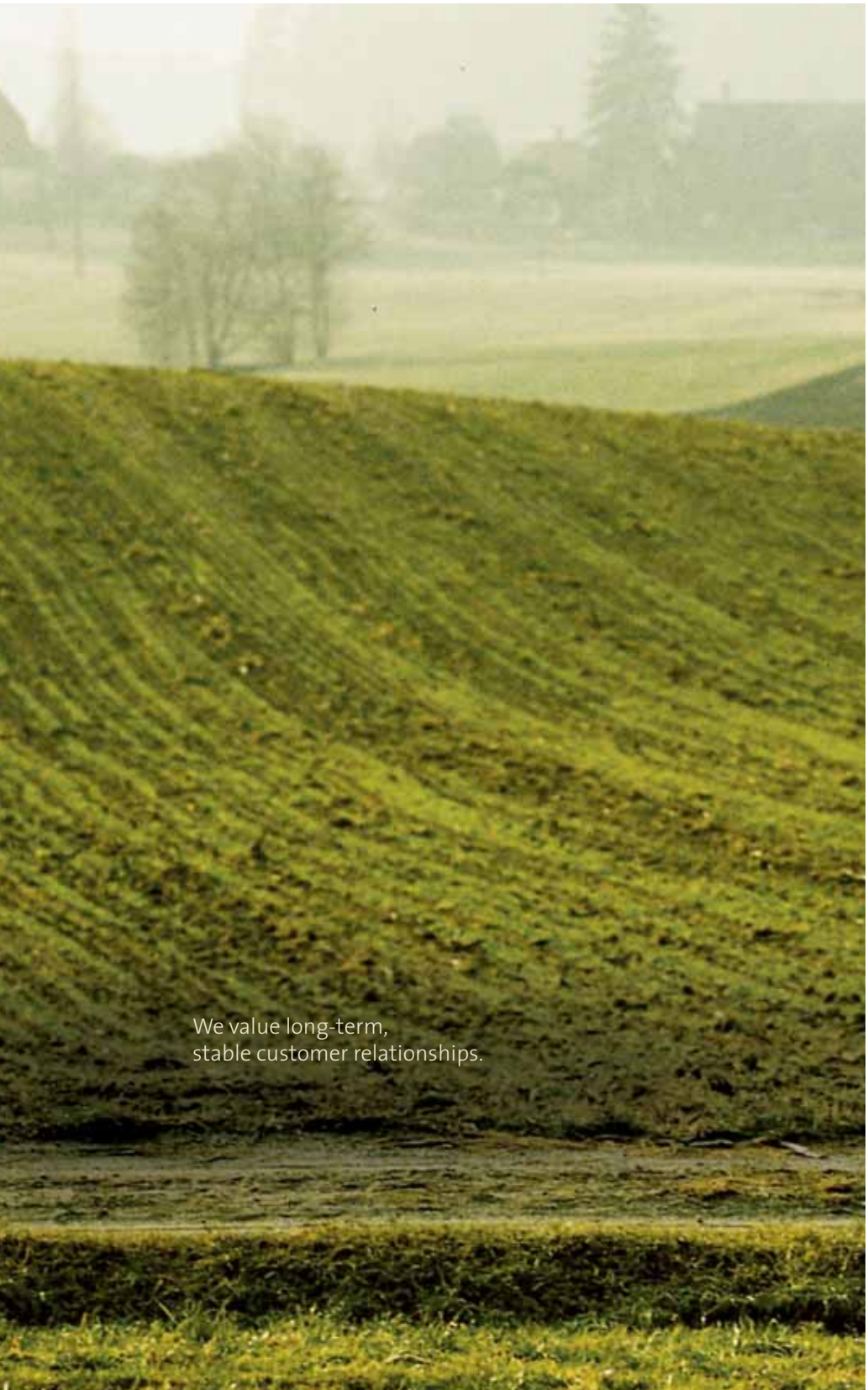
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Cataldo Castagna
Licensed audit expert
(Auditor in charge)

Patrick Schwaller
Licensed audit expert

Long term.



We value long-term,
stable customer relationships.

Valartis Group AG Bearer Share

Performance of the Valartis Group AG bearer share
1 January 2003 to 31 December 2008, in CHF

Valartis Group AG bearer share

Source: Datastream

Since its listing on 26 August 1991, the total performance of the Valartis Group AG bearer share has averaged 1.14% p.a.

Closing price of VLRT on 31.12.2007	83.00
Closing price of VLRT on 31.12.2008	14.45
Annual high on 03.01.2008	82.10
Annual low on 18.12.2008	11.70
Dividend per share paid for financial year 2007	2.75
Proposed dividend per share for financial year 2008	0.50
Dividend yield (closing price on 31.12.2008)	3.5%
Reuters symbol	VLRT.S
Bloomberg symbol	VLRT SW

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Annual Shareholders' Meeting
5 May 2009

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