Valartis Group
Annual Report 2009

valartisgroup

Group Highlights 2009

– Profitability strengthened and placed on a broader footing
– Interest arbitrage gaining in significance
– Integration of the Vienna private bank progressing on schedule
– Private banking teams in Zurich and Geneva expanded
– Liechtenstein private bank acquired
– Targeted positioning in real estate sector

Key Figures

	2009 CHF mn	2008 CHF mn	2007 CHF mn	2006 CHF mn	2005 CHF mn
Income Statement					
Net interest income	27.7	3.1	3.5	2.3	1.7
Net commission income	42.0	48.6	86.4	90.0	65.5
Income from trading	77.4	–56.4	23.0	11.7	25.8
Other income	15.7	56.7	–1.6	1.9	1.6
Total operating income	162.7	52.0	111.3	105.9	94.6
Gross profit	91.2	–6.2	61.3	54.2	54.1
Net profit attributable to Valartis shareholders	62.8	3.3	49.9	45.3	50.1

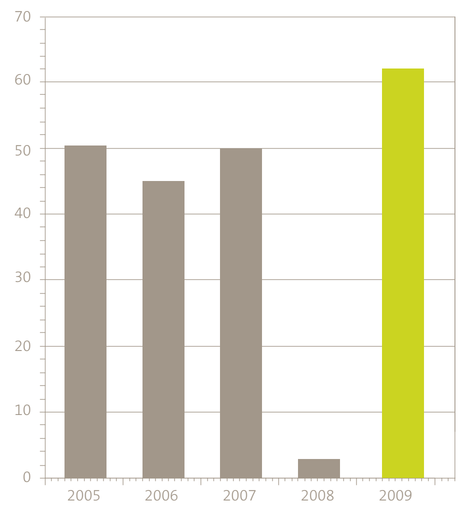
Balance Sheet					
Total assets	2,923.5	1,501.2	490.7	381.2	461.6
Liabilities	2,566.7	1,215.3	246.3	172.0	296.5
Shareholders' equity	356,8	285.9	244.4	209.2	165.1

	2009 CHF	2008 CHF	2007 CHF	2006 CHF	2005 CHF
Key Figures					
Earnings per share	13.4	0.67	10.1	9.2	11.7
Equity per share	62.9	48.5	49.4	42.1	34.2
Dividend per share	0.50 [1)]	0.50	2.75	2.75	2.75

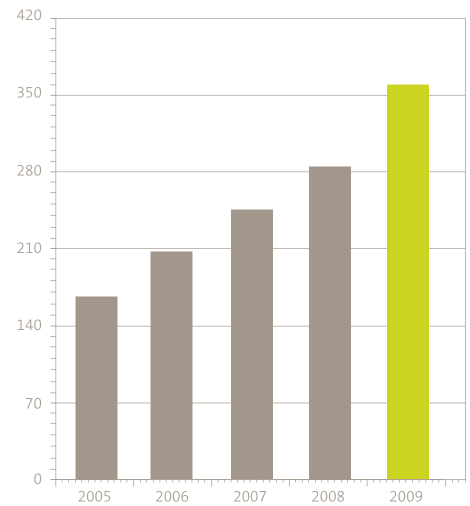
	2009 in %	2008 in %	2007 in %	2006 in %	2005 in %
Return on equity	26.6	1.4	25.5	29.0	15.2
Dividend yield	1.5	3.5	3.3	3.2	3.1
Cost/income ratio	43.9	111.9	44.9	40.7	30.1
Equity ratio	12.2	19.0	49.8	54.9	35.8
Total client assets (CHF)	6,378	4,322	4,239	3,825	3,474

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

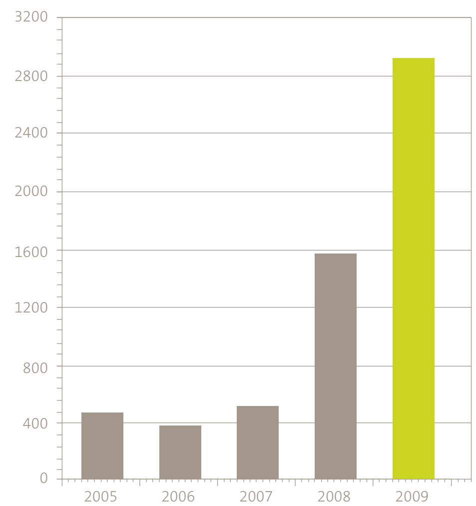
Net profit (CHF million)



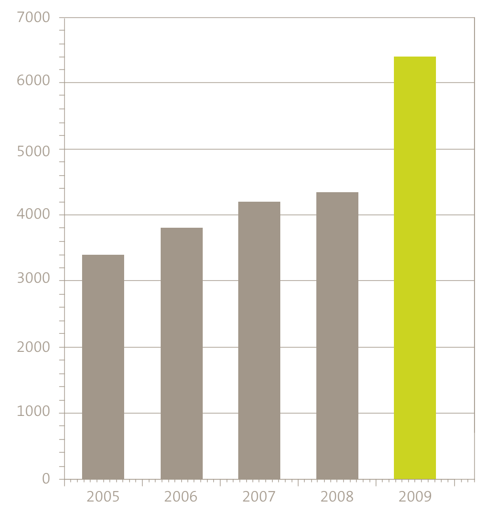
Shareholders' equity (CHF million)



Total assets (CHF million)



Total assets under management (CHF million)



Make yourself comfortable...

It is our pleasure to present to you the 2009 Valartis annual report. This report will give you an exciting look into the business and growth of Valartis Group.

Valartis Group
Annual Report 2009

valartisgroup+

Contents

Letter to Shareholders

Dear Shareholders,

We are pleased to report a much improved result for Valartis Group for the calendar year 2009. We booked an Operating Profit of CHF 91.2 million and a Net Income of CHF 62.8 million. In addition to the financial results, the business of Valartis Group is today more diversified and more stable than previously. The strategy first presented in 2007 of building a diversified financial services group in Private Banking, Investment Banking and Asset Management is starting to show its results despite a continued difficult economic and financial environment.

When we started out the year 2009 in January, the financial system had almost come to a halt with even first class banks reluctant to deal with each other, and charged interest rates with historically wide interest spreads compared to government rates. Both the Federal Reserve Bank in the US and the European Central Bank sharply increased the liquidity in the interbank market through a reduction in interest rates, extending the maturities and easing the collateral requirements for the banks. Valartis Group had just closed the acquisition of Anglo Irish Bank (Austria) in Vienna, renamed Valartis Bank (Austria) AG. We took the decision to place the bank's and the group's liquidity with high grade corporate borrowers and utilities, as well as selected regional and sovereign borrowers where the risk was lower than in the traditional inter-banking market. This was an unusual situation due to a banking crisis which was created by high losses on most of the universal banks' credit portfolios as well as overly leveraged balance sheets. The economic and financial situation, however, has improved significantly during the year 2009. The interest rate environment being at historically low levels continues to reflect the economic realities of slower growth expectations. We expect the European and American central banks to continue their low interest rate policy and also to continue to provide ample liquidity to the banking system. Credits to both consumers and corporate borrowers continue to be tight, and many corporate borrowers increasingly rely on the bond markets for their external financing.

The excellent results of Valartis Group for 2009 come from our traditional businesses of Private Banking, Asset Management and Investment Banking. In addition, the credit spreads on high grade bonds and commercial papers have narrowed as expected, and the impact of this development has been positive for Valartis Group. The Group's Balance sheet, however, is minimally exposed to interest and currency movements. Furthermore, we maintain our low leverage business model with a very moderate and secured loan book.

In Private Banking, we have seen significant inflow of funds both in Switzerland and Austria. On December 17th, 2009, we completed the acquisition of Hypo Investment Bank (Liechtenstein) AG renamed Valartis Bank (Liechtenstein) AG. Like our acquisition in Vienna at the end of 2008, we believe that this acquisition will help the Valartis Group to further diversify and expand its revenue base. In addition, Valartis Group continued to invest in the private banking area during the financial crisis and expanded its activities both in Zurich and Geneva. The private banking segment is today the most important segment for the Valartis Group.

The bank secrecy in Switzerland, Austria and Liechtenstein is an important factor for our private and institutional clients who value the confidentiality and security that bank secrecy offers. The attacks on banking secrecy have intensified. In a world of increasing transparency, but also a diminishing private sphere, we will continue to defend our clients' rights within the law to privacy and confidentiality.

The Asset Management segment has shown excellent results particularly on the Swiss and Russian equity funds side. The positive sentiment in the equities and bond markets worldwide created opportunities in most geographical areas, with the emerging markets and BRIC countries coming out on top. On the real estate side, our investment in EPH Eastern Property Holdings has been contributed positively. Valartis Asset Management is a niche provider of fund products that rely on performance and well researched investment ideas. The demand for these products is slowly coming back after a difficult 2008 as the financial crisis has created abundant investment opportunities. This is clearly shown by the excellent results for most of the Valartis investment products.

The Investment Banking segment has been reorganised and now looks very different, with a concentration on execution and brokerage for clients in equities, fixed income and foreign exchange trading. Our M&A advisory business has been active throughout Europe and particularly in Switzerland, Austria and Liechtenstein.

Valartis Group has grown rapidly over the last years, and we are pleased to report that the operational side has not been neglected. The Valartis Group as a whole, like all banking groups, has increased efforts significantly in the areas of risk, compliance, controlling and security in line with increasingly stringent regulations.

Valartis Group will continue its expansion in the private banking area going forward. The sector is going through significant structural changes and reorganisation. In particular, many larger banks, state-owned banks and banks having received government support are revisiting their business models. Smaller and medium-sized banks such as Valartis Group have the opportunity to further expand business with a more personalised service, being closer to our clients than larger banks. Most of the Valartis Group managers are highly experienced bankers who can give the service and advice that even the most demanding clients require. We are confident that the Valartis Group will continue to benefit from the changes in the industry in the future.

Baar ZG, 22 March 2010

Erwin W. Heri	Gustav Stenbolt
Chairman of the Board of Directors	Chief Executive Officer

Valartis Group
Business Activities

Valartis Group

The Valartis Group is a Swiss banking boutique with a significant private banking business as well as asset management and investment banking operations. In addition to delivering wealth management services and investment advice to high net worth individuals and institutional clients, it focuses on the development and management of innovative niche investment products (satellites) and on selected advisory and banking services.

With a team of around 300 highly qualified staff, the Group currently manages assets of around CHF 6.3 billion at its offices in Zurich, Geneva, Vienna, Liechtenstein, Moscow, St Petersburg and Luxembourg. The Group's holding company, Valartis Group AG, Baar, is listed on the SIX Swiss Exchange and is controlled by MCG Holding AG, Baar, through its 50% stake. As a Swiss banking group, Valartis is subject to consolidated supervision by the Swiss Financial Market Supervisory Authority.

Focus on Private Banking

The growth strategy is focused on expanding the private banking business. The aim is to diversify the Group's earnings on a more recurring basis to unlock potential synergies and seize growth opportunities. We made further significant progress towards this goal last year.

With the acquisition of Valartis Bank (Liechtenstein) AG in December 2009, the Group not only added CHF 1.5 billion to its assets under management, but also took on board an experienced and successful team. The growth strategy will continue under the existing management, which has built up the private bank over the last ten years, and new markets will be opened in attractive regions.

The focus on Private Banking was also confirmed by the achievements of our private bank in Vienna in its first full financial year under the Valartis umbrella. Despite reduced client activity, good profits were recorded and new money was attracted. In Switzerland, efforts to expand private banking consisted mainly in 2009 of new staff recruitment. Valartis was able to benefit from events in the Swiss banking sector and appointed experienced client advisors to strengthen its teams in Geneva and Zurich. As a consequence, the inflow of new money increased appreciably in the second half of 2009.

In 2010, our strategy will again focus on ensuring that this trend continues and maintaining its pace; the objective over the medium term is to grow Group assets under management to around CHF 10 billion.

In this context, increased emphasis will be placed on marketing our investment products in the Asset Management business – particular mention should be made here of the Russian Market Fund, which beat its benchmark by about 45 percentage points in 2009 with performance in excess of 150%, and the Swiss Small & Mid Cap Fund, which gained around 50% and outperformed its benchmark (SPI Extra) by 20 percentage points last year. Other highlights included the launch and positioning of new products in the market, such as a fund specialising in fixed-income investments in Russia, which has been very well received. On the real estate side, Valartis Asset Management won the project competition to build an underground car park in the center of Geneva. In respect of the leisure, office and retail centre in Algeria, the focus is on putting it into successful operation following finalisation of the building work.

In Investment Banking, the Group concentrates its corporate finance and M&A operations on providing advisory services primarily to unlisted medium-sized companies in central and eastern Europe. This represents a valuable add-on service for Private Banking, as a considerable proportion of its clients come from the segment of entrepreneurs. As well as providing brokerage for institutional clients trading Swiss small and mid-cap stocks and engaging in a small amount of proprietary trading, Investment Banking offers transaction and settlement services for the Group as a whole.

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

[...]

1988
After various changes of ownership, the bank is acquired by Canadian Royal Trust Group (later Royal Bank of Canada)

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

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

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

A more agile structure

With the regional expansion and strengthening of private banking activities, the Group's organisational structure was also reconfigured in 2009, making it leaner and more agile. One management level was eliminated within Asset Management, Private Banking and Investment Banking. At the same time, the Group Executive Board was slimmed down, with management responsibility for the three business segments transferred to individual operational units. This not only enabled decision-making paths to be considerably shortened, but will also allow more focused and flexible reaction to the challenges of the marketplace and the opportunities that arise.

Share participation scheme – a stronger focus on future success

The Valartis Group's remuneration system provides incentives which promote entrepreneurial thinking and action and strengthen the company as a whole. In reviewing remuneration policy, the Board of Directors and Group Executive Board have now given greater weight to this principle and decided from this year to link part of allotted performance-related pay to the future performance of the Valartis Group.

In Switzerland, for example, 50% of total variable remuneration (bonuses) will from now on be paid in cash. Another 20% will take the form of shares in the company – half of this amount after one year, and the other half after two years. These shares will be blocked for two years and one year respectively. The remaining 30% of the bonus – also in the form of shares in Valartis – will vest to the member of staff after three years and will be dependent on the performance of the Valartis Group over this period. If performance proves to be excellent – measured according to the average return on equity relative to the average tier 1 capital ratio – then the number of shares allotted can be as much as doubled; if performance is unsatisfactory, the allotted amount can fall to zero. Ownership of all shares will vest to eligible members of staff only if notice has not been given on their employment contract with the Valartis Group (details of the remuneration model can be found on page 49).

The Board of Directors continues to have no entitlement to variable compensation; directors' compensation is based on their role and contribution.

Sound financial position

Sustainable success in wealth management and advisory services depends not only on the professionalism and reliability of staff, but also crucially on confidence in the group's and financial security and strength. The Valartis Group's equity base is CHF 357 million and its equity ratio is 12%, a high figure for a bank. As such, Valartis enjoys a sound capital base.

Following consolidation of Valartis Bank (Liechtenstein) AG, the Group reported balance sheet assets of CHF 2.9 billion as at end-2009. Around 60% of the total assets are accounted for by client deposits, which are either placed on a short-term basis with high-quality domestic and foreign banks or invested in fixed-income paper. The latter investments consist of a broadly diversified portfolio of debt instruments issued by large investment grade companies, governments and quasi-governmental organisations. This enables effective spreading of counterparty risk. Whereas credit risks are actively entered into, interest rate risks in the bond portfolio are fully hedged. In order to ensure liquidity, the investments are focused mainly on securities eligible for repo transactions or which can be deposited against cash with the central bank and in the banking system.

With the expansion of its private banking activities, the Valartis Group's earnings are based on three solid pillars. These allow client requirements in the different areas of business – requirements which sometimes overlap – to be served in integrated fashion, and will enable greater use of potential synergies and collaborative opportunities within the Group. Thanks to its operations in Switzerland, Austria, Liechtenstein, Russia and Luxembourg, the Group is able to use an international network of expertise and contacts.

1998

It acquires Credit Lyonnais Bank (Austria) AG and enters the fund/asset management business

Hypo Investment Bank (Liechtenstein) AG is established

Management of MC Russian Market Fund is taken over

2003

Eastern Property Holdings, the first listed investment company for real estate in Russia, is launched

2005

OZ Group is merged with MCT companies

MCG Holding acquires 50% of the share capital and voting rights of OZ Holding AG

2006

OZ Bankers AG becomes a member of the credit card organisation VISA

Stake in Jelmoli Bonus Card AG is taken

2007

Group's brand identity is standardised under the name Valartis

Valartis Europe AG, Vienna is established, M&A advisory services are extended to Europe

2008

Valartis Group AG acquires Anglo Irish Bank (Austria) AG, which is renamed Valartis Bank (Austria) AG

2009

Valartis Group AG acquires Hypo Investment Bank (Liechtenstein) AG, which is renamed Valartis Bank (Liechtenstein) AG

Welcome to Valartis
Private Banking

Understand.
Trust.
Grow.

We take the time, through frank discussions and exhaustive advisory sessions, to tailor the options available for achieving returns and preserving capital to the wishes of our clients.

Be open.
Build a plan.
Contribute knowledge.

Our independence gives us the freedom to recommend the best strategies and products to our clients. If we cannot find the right products on the market, we develop them ourselves.

Perform.
Preserve.
Harvest.

The experience, professionalism and conscientiousness of our client advisors form the foundation for our clients to grow their assets over the long term..

Private Banking

We have repeatedly stated in recent years that expanding private banking is one of the cornerstones of the Valartis Group's growth strategy. We have therefore tried to make the most of the opportunities created by the recent banking and financial crisis. Following the 2008 purchase of Vienna-based Valartis Bank (Austria) AG, we took over the Liechtenstein private banking subsidiary of Vorarlberger Landes- und Hypothekenbank at the end of 2009 and have since renamed it Valartis Bank (Liechtenstein) AG.

The Private Banking segment manages assets of CHF 4.3 billion at its banking locations in Zurich, Geneva, Vienna and now Liechtenstein. Overall, including its asset management activities in Moscow, St Petersburg and Luxembourg and its investment banking operations, the Group looks after assets of around CHF 6.3 billion. A considerable proportion of the net new assets of CHF 1.8 billion for 2009 was generated by Private Banking. Private Banking recorded segment operating profit of CHF 13.6 million.

By acquiring new operations abroad and strengthening our Swiss team in Zurich and Geneva through the appointment of experienced and motivated private bankers, we were able to open new markets and business opportunities and to enhance our presence in important and attractive financial centres in the year under review. The main beneficiaries include our clients, as we are able to offer a significantly broader range of services.

Swiss private banking – today like yesterday a centre of excellence
Valartis Bank AG in Switzerland successfully expanded its private banking activities in 2009. Its positioning as an internationally active financial boutique with a valuable portfolio of services, extending from corporate finance to expertise in real estate investment, financing, beneficial as well as traditional and alternative asset management, is both forward-looking. Our manageable size allows us to develop a clear and personal understanding of each and every client and of their wishes and expectations. We take the time, through frank discussions and exhaustive advisory sessions, to tailor the options available for achieving returns and preserving capital to the wishes of our clients. Our independence gives us the freedom to recommend the best strategies and products to our clients, without being restricted by vested interests or any promotional guidelines. Where we cannot find the right product segments in the marketplace, or where we believe that we have the specific expertise required, we develop the products ourselves (see the information on business activities in the Asset Management section).

In this way, Valartis positions itself as a centre of excellence in private banking, and in 2009 it benefited from the appointment of experienced and entrepreneurially minded client advisors with a high level of client loyalty. We believe that it is this combination of experience, trust and our portfolio of services that will help ensure long-term success for our clients, and hence for us as well.

Our client base was successfully broadened internationally. As a growing Swiss private bank, Valartis has taken the opportunity to develop its client base in a way which is both formally correct and clearly focused. Alongside Switzerland, markets such as North America, eastern Europe and emerging regions like the Middle and Far East are central to our activities.

Images: In acuiring Valartis Bank (Liechtenstein) AG, the Valartis Group also took over sponsorship of the polo tournament in Kitzbühel. The event, which took place under the name Valartis Snow Arena Polo World Cup for the first time, was held in a spectacular setting, drawing in polo fans, investors, cultural aficionados, business figures and politicians, both local and international.

We are well aware that Swiss private banking has come into the public light internationally in the debate over tax evasion, tax fraud, etc. However, there is more to Swiss private banking than banking secrecy, as is demonstrated not least by the fact that a lot of money which had recently flowed out of Switzerland because of various amnesties has now found its way quite openly and legitimately back into Swiss accounts.

The decisive factors in private banking include experience, client relationships based on trust, transparency, critical mass and an extensive network, which, taken together, allow the varied requirements and expectations of an international private clientele to be satisfied in optimal fashion, based on tradition, innovation and stability. We also believe that the fact that we are repositioning ourselves from the ground up will help us grow and develop successfully.

Valartis Bank (Austria) AG
Our subsidiary in Vienna delivered a very good contribution to earnings in 2009, despite a difficult environment. In addition, total assets under management were increased by more than 20%.

Valartis Bank (Austria) AG employs about 90 staff, including some 40 private bankers along with investment and treasury specialists, and covers the entire spectrum of private banking services. The team is a truly multicultural one, with 17 nationalities and 15 different languages, and makes a perfect fit for our private banking philosophy as outlined above. This is confirmed by reflections from the Annual Report produced by our colleagues in Vienna, which says, for example, that: "the quality of our people is the single most important factor in the effective management of risk, and the Bank strives to attract, motivate and retain employees of the highest calibre."

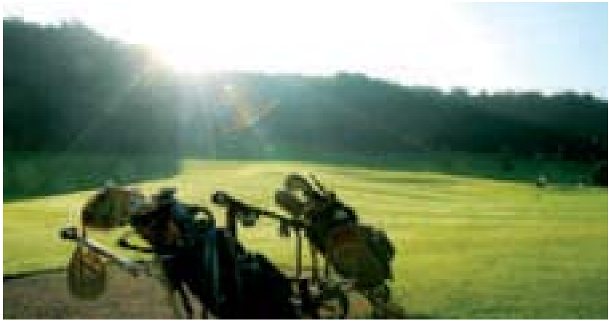
From the point of view of the Group, one focus of activities in 2009 was, of course, to benefit from synergies, which was a key factor in the acquisition the previous year. Collaboration between our different private banking locations has got off to a very good start. Vienna in particular benefited from our expertise in the management of fixed-income and treasury positions, and the Zurich team were able to put their securities settlement and administration abilities and capacity to use across the entire Group.

Valartis Bank (Liechtenstein) AG
On 16 September 2009, Valartis Group AG signed an agreement to purchase Valartis Bank (Liechtenstein) AG, formerly Hypo Investment Bank (Liechtenstein) AG. The bank was sold by Vorarlberger Landes- und Hypothekenbank AG, which decided to concentrate on its core markets. The purchase was completed on 17 December 2009, following approval from the Liechtenstein and Swiss financial market supervisory authorities. With around 50 staff, Valartis Bank (Liechtenstein) AG manages investments in the order of CHF 1.5 billion, and its philosophy, client segment and international and multicultural private banking approach make it an almost perfect complement to our existing operations.

Sponsorship and charity
We engaged in sponsorship and supported charity events for the first time last year. On acquiring Valartis Bank (Liechtenstein) AG, we became the main sponsor of the Valartis Snow Arena Polo World Cup in Kitzbühl, Austria, in which eight international teams and around 100 world-class horses compete in stunning scenery for the Valartis Polo Cup. We also provide financial, administrative and conceptual support for the Esmeralda Charity Golf Cup organised by the Limmat Foundation – five golf tournaments are held in Switzerland and southern Germany, raising significant sums of money to help street children in Colombia.

Outlook
In our private banking activities, we look to the future with confidence. We believe that the problems on the financial markets are now behind us to a large extent. The performance which we achieved for our clients last year shows that we did the right thing a year ago in successfully seeking out opportunities rather than just throwing in the towel.

In terms of future market trends, we obviously face some further challenges in both equities and fixed income. However, our positioning as an independent, internationally active, medium-sized financial boutique opens up some attractive prospects. We do not have to use established product segments or to stick to specific structures simply because they have been developed. We are able and eager to search out the best opportunities on the markets for our different client segments. This is itself difficult enough given the current situation on the financial markets and the economic environment. On this basis, we should succeed in achieving solid growth and in actively gaining market share. We expect the current refocusing of the private banking market to open up a range of opportunities resulting in organic growth in traditional and newly developed markets. As we have a strong capital base, we will also be able to give further thought to acquisition-based, entrepreneurial expansion of private banking.




Images: As the main sponsor of the Esmeralda Charity Golf Cup, Valartis worked with the Limmat Foundation to organise five golf tournaments in Switzerland and southern Germany. A significant sum was donated to children's projects in Colombia.

Enter the world of Valartis
Asset Management

Analyse.
Act.
Invest.

We focus on identifying strong investment opportunities. We follow a value-based approach that enables us to maximise these opportunities and use them to help our clients achieve better returns.

Plan.
Implement.
Perform.

We manage a variety of specialised sector and/or regional investment funds and investment companies in the asset classes of equities, private equity, fixed income, alternative investments and real estate.

Asset Management

Business performance in 2009

In Asset Management, the Valartis Group develops a range of specialised satellite products for a variety of asset classes including equities, real estate, electricity and fixed-income investments in the form of regional and/or sector funds and investment companies.

The impact of the market turmoil of the last two years, particularly for equity instruments has been strong. Nonetheless, active portfolio restructuring at the beginning of 2009 enabled some of the damage to performance caused in the general meltdown of 2008 to be recouped. Some of our funds – which we shall return to in detail below – not only posted outstanding absolute performances, but also fared well versus their benchmarks.

A further highlight of last year was that the collaboration between Asset Management and the investment subsidiary of Valartis Bank (Austria) AG started to bear fruit. A fund for eastern European and Russian government and corporate bonds – which we will shortly be able to distribute in Switzerland as well – was launched in record time in the spring through the Vienna set-up. We are confident that Valartis Bank (Liechtenstein) AG, which we acquired at the end of 2009, will also make a positive contribution to our asset management operations very shortly. Despite the depressed markets and the fact that many clients were still not really returning to the capital markets, Asset Management still posted segment operating profit of CHF 26.7 million. Asset Management also recorded an excellent result for the Valartis Group's employees in Switzerland in the management of the discretionary pension assets. The performance of an above-average 16% in 2009 is taking the already-comfortable coverage level to more than 132% as at end-2009.

Switzerland

One of Valartis's original areas of business was small and mid-cap Swiss equities. This gave rise to the Valartis Swiss Small & Mid Cap Selection Fund, which led something of a wallflower existence for a number of years – recording performance close to that of the index, but nothing really spectacular. At the beginning of last year, we restructured the fund and put it on a new platform, with new research and new investment advice. Since then, the fund has performed outstandingly well, gaining more than 50% in 2009. This meant that the Swiss Small & Mid Cap Selection Fund outperformed its benchmark (SPI Extra) by more than 20 percentage points, posting the best return of any Swiss small and mid-cap equity fund in 2009. It has continued to excel in the current year.

Eastern Europe, Russia and CIS

The MC Russian Market Fund, our flagship Russian equity fund, put in a performance of around 150% last year. As a portfolio manager, we do not blow our own trumpet just because the markets have risen. But in this case we outstripped the growth in the Russian stock index (which itself was over 100%) by a whole 45 percentage points. This outperformance was attributable to our traditional underweighting of the oil and gas sector and our overweighting of consumer goods. However, consumer goods stocks have now reached levels which make us wary, as they cannot keep on going up for ever. We have therefore started reducing our overweight in consumer goods in favour of a higher weighting for oil and gas.

Pictures from top: 1/2: Shopping, leisure and office complex in the Bab Ezzouar business district of Algiers; 3/4: Properties belonging to the MCT Berlin Residential Fund, on Berlin's Bahnhofstrasse and the Grüne Stadt (Green City) in the Prenzlauer Berg district.

In general, we continue to take an optimistic view of the Russian equity market. Valuations are more favourable than in most emerging economies, and the fundamentals are good. Russia remains an emerging market, of course, with the volatility that this brings, as was amply demonstrated in 2008. Nonetheless, now is a good time for long-term investors to buy, as we are still a fair way from the previous market highs, valuations are lower than on many other markets and no performance fee is being levied by the Russian Market Fund at present because of its high-water-mark feature. As such, the Russian Market Fund enables entry into the Russian equity market on a professional basis and at a favourable price.

In addition to the Russian Market Fund, which invests exclusively in Russian stocks, we manage another equity fund focusing on both Russian and other eastern European equities: the Valartis Eastern European Equities (formerly the MC Premium Eastern European Equity Fund). The VEEE has enjoyed a 5-star rating from Morningstar for several years and posted a 46% return last year.

As mentioned above, we launched the Valartis Russia & CIS Fixed Income Fund in collaboration with our colleagues in Vienna last spring, in order to enable our clients to invest in eastern European fixed-income securities. With a management fee of 1%, the fund enables inexpensive but diversified entry into the very attractive market in eastern European and Russian government and corporate bonds. From its inception date at the end of April up to the end of 2009, the fund – which, in common with our other products, is actively managed – delivered a performance of around 25%.

The final element in our range of investment instruments for Russia and eastern Europe is ENR Russia Invest SA (ENR). ENR is an investment company listed on the SIX Swiss Exchange which specialises in the management of private equity, equity-like instruments and bonds in Russia, the CIS states and Baltic countries. The Valartis Group holds around 55% of ENR.

Eastern Property Holdings (EPH)
EPH is a real estate company which was listed on the SIX Swiss Exchange in 2003 and manages a portfolio of real estate and development projects in Russia. When it was founded, EPH was the first listed property company to operate in the newly emerging Russian real estate market. To this day, EPH clearly stands out from other real estate companies active in the CIS markets. EPH is not purely a developer, an investor or an operator, but combines the management of rental properties at prime sites in Moscow and St Petersburg with development projects. EPH has a number of promising projects in attractive locations. Recently, another trophy development in the centre of Moscow, Geneva House, was finished. This marked the completion of the first development project that EPH had managed from the outset. The Valartis Group increased its stake in EPH to around 38% over the course of 2009. With a level of debt which remains modest, recurrent income streams, an experienced team and a sound product pipeline, EPH is an important asset for the Group and a promising source of value creation.

MCT Berlin Residential Fund
The MCT Berlin Residential Fund was established in 2005 and gives investors an opportunity to invest in a focused manner in the Berlin residential property market. The fund holds more than 4,400 residential and commercial units in Berlin and Leipzig. They currently have a total market value of around EUR 300 million. The term of the fund is set at nine years.

In operational terms, 2009 was the most successful year so far for the MCT Berlin Residential Fund. Vacancy rates in the portfolio were sharply reduced, falling to below 4%. The letting of recently renovated sites is on course and will be completed in the current year. Despite the better-than-average quality of the real estate portfolio and operational successes, the fund did not entirely escape the difficulties in the real estate market, and its net asset value saw a downward correction of 3.5%. Despite that, the fund is slightly up since its launch, with a performance of 0.6%.

For 2010, we expect new rentals of renovated properties to deliver growth in rental income and so boost the fund's NAV.

Valartis German Residential Health Care SICAV

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 German assisted care facilities and has only minimal correlation with traditional real estate investments. In addition to attractive annual dividends, it offers the opportunity of capital gains during the fund's lifetime. Following the acquisition of the first facility in 2008, two more homes were bought in Germany in 2009. The Valartis German Residential Health Care Fund made these purchases at attractive prices. Further purchases are planned for 2010, with a focus on seeking out special situations.

Business development in Algeria

Because of its gas and oil resources and its restored political stability, we regard Algeria as a good investment opportunity for the future. With this in mind, the Valartis Group together with Jelmoli launched the construction of a shopping, leisure and office complex in Algeria in 2007. The complex is in an attractive location in the busy business district of Bab Ezzouar in Algiers. The construction of such a complex and the leasing of units is a sizeable undertaking, and – not least because of internal design work by tenants – the opening date has been put back somewhat. However, this first retail, leisure and office complex in Algiers is due to open in early summer 2010.

Outlook

For 2010, we do not expect to see performance figures similar to last year's in most of the asset classes relevant to us, even if, as stated above, we do not yet regard equity valuations as excessive. A significant proportion of the undervaluation we identified last spring has now disappeared in certain asset classis due to revaluations. We are confident that our active, value-based investment approach will identify further investment opportunities even in this environment, which will enable to achieve a good performance relative to the benchmark. We will also focus on strengthening marketing and distribution in 2010. In the real estate sector, we believe the markets will continue sideways for a while. However, we believe that, with its range of investment vehicles and real estate projects, Valartis will be well positioned for the upturn when it arrives.

Pictures from top: 1: Geneva House in central Moscow – business premises completed in 2010 by Eastern Property Holdings Ltd, which specialises in Russian real estate and development projects. 2: Modern bank premises at the Liechtenstein private bank acquired at end-2009.

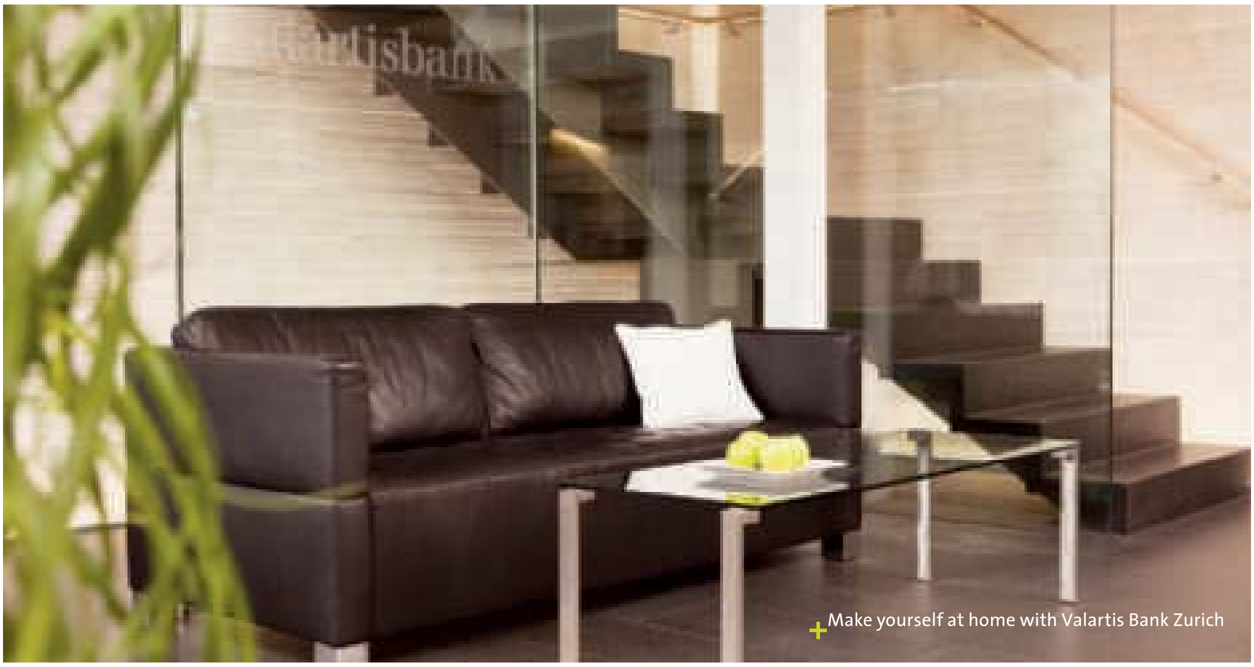
Join Valartis
Investment Banking

Gather ideas.
Set up a structure.
Stay focused.

For some of our industrial clients we have implemented cross-border transactions in the pulp, paper and packaging, financial services, environmental technology and alternative energy, real estate and consumer goods sectors.

Be active.
Think differently.
Find solutions.

Our client-centred investment banking approach is founded on extensive experience in the Swiss small and mid-cap segment, reliable securities settlement and expertise in trading a variety of asset classes.



Make yourself at home with Valartis Bank Zurich

Investment Banking

Business performance in 2009

The volatility on the stock markets last year demonstrated that the restructuring and refocusing of Investment Banking were appropriate and important actions. A leaner organisational structure and greater focus on client business meant that we were able not only to achieve more stable income, but also to post a very good segment operating profit of CHF 53.2 million, after the previous year's loss.

However, we were also last year able to benefit from the opportunities which the financial markets continue to offer to alert observers. We exploited the undervaluation seen in fixed income in particular in order to build up a bond portfolio. This enabled us to record a significant improvement in our net trading income against recent years at relatively low risk.

On the equities side, the biggest challenges came from a significant reduction in volumes and a volatile market environment. By reducing fixed costs and being more flexible in our focus than was previously the case, we succeeded in generating good profits once again in our traditional business with Swiss small and mid caps. In comparison with previous years, the contribution to earnings from proprietary equity trading was lower. This was mainly the result of a significant reduction in our market exposure at the beginning of 2009. We also undertook a fundamental review of risk management and of the procedures involved, with a view to improving the risk/return profile. By making systematic use of our strengths and proceeding on a very selective basis, we recorded outperformance in assets under management.

Efforts to benefit from synergies by centralising functions such as trading and securities settlement and treasury, as mentioned in the Private Banking section, were driven further forward and yielded their first fruits in Investment Banking as well. The acquisition of Valartis Bank (Liechtenstein) AG opens up added potential for us in this area.

In last year's Annual Report, we said that financial year 2009 would be decisive for the future of the Investment Banking unit. We can now report that the new strategy and the new areas of business have been successful.

Valartis Europe AG

Our corporate finance and advisory services for corporate transactions (mergers & acquisitions) are provided mainly through Valartis Europe AG in Vienna, covering the whole of Europe and from Zurich for Switerland. This business segment did not entirely escape the general sluggishness in the M&A market. The total volume of the M&A market was down 50–70% versus its 2007 peak last year in our main market.

Despite this unfavourable environment, our corporate finance team still managed to finalise a series of cross-border deals for some of our industrial clients, mainly in the core sectors of

Images: A wind farm in northern Germany – Valartis Europe AG, Vienna, acted as sell-side lead advisor on this cross-border transaction, which falls into the "Environmental Technology/ Alternative Energy" category.

pulp, paper and packaging, financial services, environmental technology and alternative energy, real estate and consumer goods. The comprehensive range of services offered in the corporate finance/M&A business segment is also becoming more and more popular with Private Banking clients.

The latest analysis suggests that the M&A market is now expanding again. Experts anticipate that the volume of deals will return to its 2004 level. This view is supported by a much narrower gap between buyers' and sellers' expectations, particularly in terms of price, and by the generally more optimistic attitudes among companies seeking acquisitions and among investors. Valartis Europe expects significant expansion in M&A activity, particularly in its core industries, and a growing number of M&A advisory mandates as a result. Should the slow recovery in the economy get onto a firm footing, we expect to see further improvement in earnings in this area in the current year.

Outlook

We indicated earlier that we do not expect the financial markets, and the equity markets in particular, to maintain in 2010 the rapid upward trajectory on which they embarked in early March last year. Some forecasters think that the market gains point to further bubble formation and have reminded people that the uncertainties created by the 2007-09 financial crisis are far from over. On the other hand, we know that in the financial markets we are dealing primarily in hopes and expectations, and that the stock market usually runs ahead of the wider economy. The latest economic data, even on the labour market, seem to suggest that the stock market has not necessarily been in error over the past year. Nonetheless, uncertainties remain, and so we do not expect trading volumes to improve significantly in 2010. We believe that the markets will continue to behave unevenly, with above-average volatility.

In the current year, we intend to continue systematically down the path we have started on and to further professionalise our operations. We will focus principally on further expanding our client business and on making even more effective use of potential synergies within the Group. Our strengths in Swiss small and mid caps and in derivatives trading will enable us to expand commission business and mandate trading further and to achieve stable earnings. In central trading and securities settlement and treasury, the objective will be to keep pace with the growth of the Valartis Group, to further expand the range of services and to make our processes and systems even more efficient.

Jelmoli Bonus Card AG

Corporate strategy
The growth strategy of Jelmoli Bonus Card AG centres on the acquisition of new clients through its collaboration with the Swiss Federal Railways (SBB) and on ongoing expansion of the Bonus Card client loyalty scheme. By launching innovative products and services which also offer good value for money, the aim is to provide a targeted response to client requirements in the Swiss credit card market. Jelmoli Bonus Card AG is also endeavouring to steadily expand its partnership network in order to further enhance its attractiveness to clients.

Milestones in 2009
The focus in 2009 was on ongoing growth in the individual card portfolios. New clients were acquired by means of focused marketing campaigns, boosting the company's share of the Swiss credit card market. Another focal point was client loyalty, achieved through steady provision of services to existing clients.

Independent credit card comparisons carried out in 2009 by comparis.ch and the TV programme Kassensturz demonstrated that all the credit card products offered by Jelmoli Bonus Card AG are among the most attractive on the Swiss market. Annual fees and charges for foreign currency transactions and cash withdrawals are extremely fair and transparent.

With the introduction of purchase protection insurance in autumn 2009, which is available for all products, clients can enjoy comprehensive cover when shopping with their credit card. With regard to the Bonus Card portfolio, the existing bonus scheme was adjusted to make it both more attractive and at the same time clearer and more straightforward for clients. As a result of these adjustments, our current network of respected partner companies was persuaded to make even greater use of the Bonus Card as a central element in client retention.

Images: Shop with the free Visa Bonus Card and collect bonus points, all over the world or from the comfort of your own home.

Another milestone in 2009 was further growth for the SBB products. The main focus is on the half-fare season ticket offer with a free integrated Visa card, which is very popular with clients. In addition, focused marketing brought in new clients through various distribution channels.

Figures
Card spending of around CHF 670 million was recorded in 2009. This represents growth of 10% over the previous year for Jelmoli Bonus Card AG, despite the global economic crisis. The overall card portfolio of Jelmoli Bonus Card AG saw faster growth than the Swiss credit card market as a whole.

Outlook
In 2010, Jelmoli Bonus Card AG will drive forward its collaboration with the SBB and focus on further extending the Bonus Card partnership network. The aim is also to achieve a stronger positioning for the various products in the Swiss credit card market.

The increase in the price of the SBB's half-fare season ticket, announced for December 2010, is expected to deliver added growth impetus, as the half-fare season ticket offer with integrated Visa card will then cost CHF 30 less than the standard one-year half-fare option without Visa card.

By providing a varied product range and offering more card-related financial services, Jelmoli Bonus Card AG intends to increase its client base and achieve further growth in card spending. Combined with strict cost control, this will result in lasting earnings growth.

Valartis Group
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 33 fully consolidated companies. The most important of these can be found in Note 44 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 38.1% 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 2009 was CHF 162.5 million. Of the total of 5,000,000 outstanding shares, 9.0% 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, fixed income, 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.

Private Banking
The Valartis Group's private banking teams in Geneva, Zurich, Vienna and Liechtenstein provide their high net worth clientele with wealth management and investment advisory services. Private Banking follows a client-centric approach, which is implemented with the utmost care and drawing on a great deal of experience. The autonomous way in which it works ensures that clients are always presented with a transparent, independent selection of the best product and strategy recommendations.

Investment Banking
Valartis Bank AG contributes extensive expertise in the Swiss equities market to the Group. The primary focus in both brokerage and corporate finance activities is on the small and mid-cap segment. The M&A services, which are principally performed by Valartis Europe AG, Vienna, include advising medium-sized unlisted companies in central and eastern Europe.

Consolidation
The consolidated companies of the Group are listed in the Note 44 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 owners of MCG Holding S.A. are Gustav Stenbolt, Geneva, Philipp LeibundGut, 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. Further information on the shareholder structure can be found in Note 35.

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
Valartis Group AG's share capital remained unchanged in financial year 2009. 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 2009, 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	2012	2003
Dr. Stefan Holzer	Vice-Chairman	Non-executive member	Swiss	2012	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).

Left to right: Jean-François Ducrest, Stefan Holzer, Erwin W. Heri, Philipp LeibundGut

Board of Directors

Erwin W. Heri, born 1954
Dr. rer. pol., University of Basel. Associate professor in financial market theory at the University of Basel. 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, Vienna, and Valartis Europe AG, Vienna. Other posts held include member of the Board of Directors of Losinger Construction AG, Berne, and Sofisa Société Financière S.A., Fribourg; until summer 2009 chairman of the investment committee of Publica (Swiss federal pension fund). 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, Valartis Bank AG and Valartis Bank (Liechtenstein) AG, member of the Board of Directors of Jelmoli Bonus Card AG, Zurich, and member of the Supervisory Board of Valartis Bank (Austria) AG, Vienna, 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. Member of the Boards of Directors of Valartis Group AG, Valartis Bank (Liechtenstein) AG, Valartis Asset Management S.A. and Eastern Property Holdings Ltd, Tortola (BVI); member of the Supervisory Board of Valartis Bank (Austria) AG, Vienna. From 2002 to 2006, member of the Executive Board of Valartis Asset Management S.A. From August 1998 to December 2001, Philipp LeibundGut worked for Hansa AG, Baar, Canton of Zug, as an investment advisor.

Jean-François Ducrest, born 1958
Lic. iur. University of Fribourg and attorney-at-law. Member of the Board of Directors of Valartis Group AG and Valartis Bank AG. Mr Ducrest was until 1986 a research associate at the Fribourg Faculty of Law and has since then practised law 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

There were no changes to the Board of Directors in 2009.

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 2009, 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. The duties of the Audit Committee have been delegated to Dr. Stefan Holzer in accordance with FINMA Circular 2008/04, no. 30.

In addition to the non-transferable and irrevocable powers (Article 716a para. 1 OR), the Board of Directors has additional exclusive duties. 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 to 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 2009, 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 senior management. 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.

Left to right: Gerhard Lackinger, Hanspeter Kaspar, Gustav Stenbolt, Andrew Hartnett, Ernst Traun, Eric Berthelot, Andreas Insam

Group Executive Board

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

Eric Berthelot, born 1961
Degree in Russian, Polish and law from Paris University, MBA from HEC (France). He is in charge of the Private Banking segment and Deputy CEO of the Valartis Group and Valartis Bank. Mr 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.

Members of the Group Executive Board
As at 31 December 2009, the Valartis Group Executive Board consisted of three members:

Name	Function	Nationality
Gustav Stenbolt	Chief Executive Officer (CEO)	Norwegian
Dr. Hanspeter Kaspar	Chief Financial Officer (CFO)	Swiss
Eric Berthelot	Head of Private Banking	Swiss

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.

Valartis Bank (Liechtenstein) AG

Andreas Insam, born 1957
Mr Insam holds the qualification Dr. rer.soc.oec from the University of Innsbruck. He has been CEO of Valartis Bank (Liechtenstein) AG since it was founded in 1998. He was previously a long-standing member of the Board of Managers of LGT Bank in Liechtenstein (Frankfurt) GmbH, with responsibility for the Institutional Sales division. Upon obtaining his doctorate in business administration, Mr Insam was appointed research associate at the University of Innsbruck's Institute of Mathematics and Statistics, and later became assistant to the Executive Board of LGT Bank in Liechtenstein. He has lectured and examined at the Hochschule Liechtenstein and University of Innsbruck for many years and joined the Board of the Liechtenstein Bankers Association in February 2004.

Gerhard Lackinger, born 1957
Mr Lackinger holds the qualifications Dr. iur and Mag. rer. soc. oec. from the University of Innsbruck and is an Austria certified (sworn) accountant. He has been a member of the Executive Board of Valartis Bank (Liechtenstein) AG since 2000, with responsibility for the Back Office division comprising the Accounting, Legal & Compliance, IT, Credit, Human Resources and Facilities Management departments, and was formerly Head of the Executive Board Secretariat and Legal department at Vorarlberger Landes- und Hypothekenbank AG, Bregenz. He holds support functions for subsidiaries in relation to leasing, insurance and real estate. Mr Lackinger is also a long-standing speaker for and member of the Austrian Mortgage Banks' Audit Committee.

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
Reto Peczinka, Head of Investment Banking, left the Valartis Group at the end of April 2009. Felix Morf, Head of Asset Management, left the Group at the end of June 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. The entire Board of Directors is responsible for the design and definition of the remuneration system. As such, there is no permanent compensation committee, and no external consultants are deployed in this area.

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 following table provides guidance as to the weightings of the individual components (a) to (c).

Component/function	CEO	CFO	Head of business segment
(a) Group operating profit	30%–50%	20%–40%	10%–20%
(b) Operating profit of business segment	–	–	30%–40%
(c) Individual personal contribution	70%–50%	80%–60%	60%–40%

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, performance-related remuneration in excess of CHF 50,000 is paid out as follows: 50% of the total bonus is paid out immediately in cash. A further 20% is allotted in the form of shares in the Company. Half of these vest to the eligible party after one year and the remaining half after two years; the first half are blocked for two years and the second half for one. The remaining 30% of the bonus – also in the form of shares in Valartis – vests to the member of staff after three years and will be dependent on the performance of the Valartis Group over this period. The basis for the measurement of performance, beginning at the start of 2010, is the average return on equity achieved over those three years and the average tier 1 capital ratio over the same period. The number of allotted shares may be increased (doubled at most) in the event of outstanding performance, i.e. a high return on equity coupled with a high tier 1 capital ratio. If performance is unsatisfactory, the allocation can fall to zero, i.e. the 30% of the bonus is lost.

Ownership of shares – as described above (50% of bonus) – will vest to eligible members of the Group Executive Board only if notice has not been given on their employment contract with the Valartis Group. Otherwise, they lose any claim on those shares that have not yet vested.

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.

The remuneration model as described for the Group Executive Board basically also applies to all employees in Switzerland. When implemented in other countries, local practices and regulations are followed.

Financial year 2009
Information on the remuneration of the members of the Board of Directors and the Group Executive Board is provided in Note 37 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 external audit mandate is performed by Ernst & Young AG; the internal audit mandate by Deloitte AG.

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 Patrick Schwaller, who has exercised this function since financial year 2009.

Auditor's fee
Ernst & Young AG charged the Valartis Group CHF 1,202,000 in financial year 2009 (previous year: CHF 958,000) for services in connection with the regulatory audit and with auditing the annual financial statements and the consolidated financial statements of the Valartis Group and the Valartis Group companies. The increase is linked primarily to the newly acquired companies.

Additional fees
In addition, Ernst & Young AG invoiced Valartis Group for other services in the areas of legal matters, tax, risk policy and information technology the amount of CHF 615,000 (previous year: CHF 415,000).

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 127.

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Consolidated Income Statement

	Note	1.1.–31.12.2009 CHF	1.1.–31.12.2008 CHF
Interest and discount income		43,162,136	7,796,854
Dividend income		716,232	1,400,960
Interest expense		–16,186,349	–6,049,257
Income from interest and dividend business	1	**27,692,019**	**3,148,557**
Commission income from loan business		677,116	784,996
Commission income from securities and investment business		47,792,529	59,270,694
Commission expense		–6,506,213	–11,478,991
Income from commission and service fee business	2	**41,963,432**	**48,576,699**
Income from trading	3	**77,428,688**	**–56,426,094**
Income from business combination (negative goodwill)		0	14,023,795
Income from associated companies		13,254,522	41,467,832
Other income		2,411,051	1,245,419
Other ordinary income	4	**15,665,573**	**56,737,046**
Total operating income		**162,749,712**	**52,036,208**
Personnel expense	5	45,842,500	35,096,081
General expense	6	25,675,661	23,132,354
Administrative expense		**71,518,161**	**58,228,435**
Gross operating profit		**91,231,551**	**–6,192,227**
Depreciation/amortisation of property, plant and equipment and intangible assets	7	11,954,874	2,769,020
Valuation adjustments, provisions and losses	8	1,539,764	155,000
Net profit before taxes		**77,736,913**	**–9,116,247**
Taxes	9	11,147,689	–5,144,384
Net profit		66,589,224	–3,971,863
Net profit attributable to minority interests		–3,822,587	7,267,997
Net profit attributable to shareholders of Valartis Group AG		**62,766,637**	**3,296,134**
Earnings per share of Valartis Group AG (undiluted)	10	13.39	0.67
Earnings per share of Valartis Group AG (diluted)	10	12.71	0.63

Consolidated Statement of Comprehensive Income

	1.1.–31.12.2009 CHF	1.1.–31.12.2008 CHF
Net profit in the income statement	**66,589,224**	**–3,971,863**
Net unrealised gain/loss from financial assets available for sale	–647,218	–5,362,494
Income from financial assets available for sale transferred to the income statement	227,209	2,640,718
Foreign exchange translation differences	–4,024,376	–3,295,920
Net income for the financial year recognised directly in equity	**–4,444,385**	**–6,017,696**
Net income for the financial year recognised in the income statement and in equity	**62,144,839**	**–9,989,559**
Allocation		
Shareholders of Valartis Group AG	58,588,157	–2,860,066
Minority interests	3,556,682	–7,129,493

Consolidated Statement of Financial Position

Assets

	Note	31.12.2009 CHF	31.12.2008 CHF
Cash	13	290,870,209	66,898,867
Due from banks	14	770,480,636	901,670,769
Due from clients	14, 15	185,068,442	105,361,134
Trading portfolio assets	16	1,131,733,096	72,603,439
Financial assets available for sale	17	63,656,784	40,914,833
Financial assets held to maturity	17	19,515,705	0
Other financial assets at fair value	18	973,595	656,005
Associated companies	19	134,037,233	89,548,828
Property, plant and equipment	20	153,107,237	93,003,502
Accrued and deferred assets	21	44,805,542	12,629,368
Positive replacement values	22	7,690,245	2,078,321
Other assets		7,977,034	5,931,072
Goodwill and other intangible assets	23	97,206,939	86,154,893
Deferred tax claims	9	16,322,531	23,715,648
Total assets		**2,923,445,228**	**1,501,166,679**

Total subordinated claims	10,738,836	0
Total due from qualified investors	17,115,299	19,390

Liabilities and shareholders' equity

	Note	31.12.2009 CHF	31.12.2008 CHF
Liabilities			
Due to banks		484,163,238	164,586,208
Cash deposits for repurchase agreements		263,497,000	0
Due to clients	26	1,730,634,829	969,651,749
Negative replacement values	22	5,630,178	6,629,012
Taxes	9	10,117,458	9,487,919
Accrued and deferred liabilities	27	20,090,714	17,208,120
Other liabilities		8,592,068	8,783,729
Valuation adjustments and provisions	28	8,746,401	8,920,817
Deferred tax liabilities	9	35,222,392	30,012,061
Total liabilities		**2,566,694,278**	**1,215,279,615**
Shareholders' equity			
Share capital	29	5,000,000	5,000,000
Reserves		303,864,915	244,015,308
Foreign exchange translation differences		–6,960,715	–3,202,244
Unrealised income from financial assets available for sale		–3,371,254	–2,951,245
Treasury shares	30	–12,192,261	–3,964,989
Shareholders' equity of the shareholders of Valartis Group AG		**286,340,685**	**238,896,830**
Minority interests		70,410,265	46,990,234
Total shareholders' equity (including minority interests)		**356,750,950**	**285,887,064**
Total liabilities and shareholders' equity		**2,923,445,228**	**1,501,166,679**
Total subordinated liabilities		58,599,200	38,767,200
Total due to qualified investors		3,305,641	5,424,000

Statement of Changes in Shareholders' Equity

2008	Share capital	Treasury shares	Capital reserves	Retained earnings
	CHF	CHF	CHF	CHF
Opening balance at 1 January 2008	**5,000,000**	**–3,973,947**	**–7,573,060**	**251,499,922**
Gains/losses from financial assets available for sale				
Foreign exchange translation differences				
Net profit				3,296,134
Comprehensive income	**0**	**0**	**0**	**3,296,134**
Dividend payments				–13,750,000
Change in treasury shares		8,958	–715,287	
Change in scope of consolidation				
Income from first-time consolidation of associated companies				11,257,599
Transactions with minority shareholders				
Owner-related changes	**0**	**8,958**	**–715,287**	**–2,492,401**
Total shareholders' equity at 31 December 2008	**5,000,000**	**–3,964,989**	**–8,288,347**	**252,303,655**
2009				
Opening balance at 1 January 2009	**5,000,000**	**–3,964,989**	**–8,288,347**	**252,303,655**
Gains/losses from financial assets available for sale				
Foreign exchange translation differences				
Net profit				62,766,637
Comprehensive income	**0**	**0**	**0**	**62,766,637**
Dividend payments				–2,500,000
Change in treasury shares		–8,227,272	1,036,932	
Change in scope of consolidation				
Transactions with minority shareholders				–1,453,962
Owner-related changes	**0**	**–8,227,272**	**1,036,932**	**–3,953,962**
Total shareholders' equity at 31 December 2009	**5,000,000**	**–12,192,261**	**–7,251,415**	**311,116,330**

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

Net unrealised gains/(losses) on financial instruments	Foreign exchange translation difference	**Total equity (exclusive minority interests)**	Minority interests	Foreign exchange effect on minority interests	**Total minority interests**	**Total shareholders' equity**
CHF	CHF	**CHF**	CHF	CHF	**CHF**	**CHF**
–229,469	**232,180**	**244,955,626**	**–612,682**	**56,601**	**–556,081**	**244,399,545**
–2,721,776		**–2,721,776**			**0**	**–2,721,776**
	–3,434,424	**–3,434,424**		138,504	**138,504**	**–3,295,920**
		3,296,134	–7,267,997		**–7,267,997**	**–3,971,863**
–2,721,776	**–3,434,424**	**–2,860,066**	**–7,267,997**	**138,504**	**–7,129,493**	**–9,989,559**
		–13,750,000			**0**	**–13,750,000**
		–706,329			**0**	**–706,329**
		0	54,087,411		**54,087,411**	**54,087,411**
		11,257,599	558,267		**558,267**	**11,815,866**
		0	30,130		**30,130**	**30,130**
0	**0**	**–3,198,730**	**54,675,808**	**0**	**54,675,808**	**51,477,078**
–2,951,245	**–3,202,244**	**238,896,830**	**46,795,129**	**195,105**	**46,990,234**	**285,887,064**
–2,951,245	**–3,202,244**	**238,896,830**	**46,795,129**	**195,105**	**46,990,234**	**285,887,064**
–420,009		**–420,009**			**0**	**–420,009**
	–3,758,471	**–3,758,471**		–265,905	**–265,905**	**–4,024,376**
		62,766,637	3,822,587		**3,822,587**	**66,589,224**
–420,009	**–3,758,471**	**58,588,157**	**3,822,587**	**–265,905**	**3,556,682**	**62,144,839**
		–2,500,000			**0**	**–2,500,000**
		–7,190,340			**0**	**–7,190,340**
		0	13,933,092		**13,933,092**	**13,933,092**
		–1,453,962	5,930,257		**5,930,257**	**4,476,295**
0	**0**	**–11,144,302**	**19,863,349**	**0**	**19,863,349**	**8,719,047**
–3,371,254	**–6,960,715**	**286,340,685**	**70,481,065**	**–70,800**	**70,410,265**	**356,750,950**

Consolidated Cash Flow Statement

	2009 CHF	2008 CHF
Net profit before taxes (including minority interests)	77,736,913	– 9,116,247
Non-cash activities in the consolidated income statement		
Amortisation of intangible assets	5,176,757	1,414,940
Depreciation of property, plant and equipment	6,778,117	1,354,080
Change in value adjustments and provisions	–604,162	155,000
Income from associated companies	–13,254,522	– 41,467,832
Income from business combination (negative goodwill)	0	– 14,023,795
Other non-cash activities	–124,208	0
Change in deferred taxes	9,714,023	– 3,441,120
Net (increase) decrease in assets and liabilities of the banking business:		
(Increase) decrease in accrued and deferred assets	–26,904,226	23,025,773
(Decrease) increase in accrued and deferred liabilities	–104,310	– 11,939,965
(Increase) decrease in trading securities	–1,052,611,881	208,105,248
(Decrease) increase in liabilities from trading	0	–7,071,162
(Decrease) increase in amounts due to clients	2,793,666	29,661,468
(Increase) decrease in amounts due from clients	–8,760,934	66,971,523
(Decrease) increase in amounts due to banks	549,463,030	60,577,843
(Increase) decrease in amounts due from banks	335,798,126	633,855,155
(Increase) decrease in cash deposits for borrowed securities	0	9,900,000
(Decrease) increase in cash deposits for loaned securities	0	–15,000,000
(Increase) decrease in positive replacement values	–5,577,497	4,732,657
(Decrease) increase in negative replacement values	–1,030,605	–19,144,819
(Increase) decrease in other financial assets at fair value	–317,590	63,871,708
(Decrease) increase in other financial liabilities at fair value	0	–19,648,073
(Increase) decrease in other assets	875,886	2,485,860
(Decrease) increase in other liabilities	–643,279	1,357,817
Net change in accrued taxes	–227,517	–4,307,282
Taxes paid	–1,387,330	433,512
Cash flow from operating activities	**–123,211,543**	**1,027,867,263**
Purchase of property, plant and equipment	–43,595,841	–39,837,860
Sale of property, plant and equipment	857,850	9,568,684
Acquisition of associated companies	–31,233,882	–34,669,918
Acquisition of intangible assets	–40,349	0
Sale of intangible assets	26,401	0
Acquisition of financial assets available for sale	800,089	–28,685,324
Sale of financial assets available for sale	227,209	0
Acquisition of subsidiaries less acquired cash	–36,016,093	–227,448,906
Cash flow from investment activities	**–108,974,616**	**–321,073,324**
Dividend payments	–2,500,000	–13,750,000
Change in treasury shares and derivatives on treasury shares	–5,969,083	–712,112
Change in minority interests in equity	19,863,349	54,499,563
Cash flow from financing activities	**11,394,266**	**40,037,451**
Effect of foreign exchange translation differences (including minority interests)	7,121,244	–762,014
(Increase) decrease in cash and cash equivalents	**–213,670,649**	**680,944,402**
Position at 1 January	725,776,897	44,832,495
Position at 31 December	512,106,248	725,776,897

Consolidated Cash Flow Statement

	2009 CHF	2008 CHF

For the purpose of the cash flow statement, cash and cash equivalents are made up of the following accounts:

Cash	290,870,209	66,898,867
Due from banks at sight/callable	221,236,039	658,878,030
Total cash and cash equivalents	**512,106,248**	**725,776,897**

Dividends received	716,232	1,538,194
Interest received	43,162,136	5,051,800
Interest paid	–16,186,349	3,671,465

Consolidated Statement of Off-Balance-Sheet Items

	31.12.2009 CHF	31.12.2008 CHF
Credit guarantees	11,951,374	0
Warranties	0	0
Other contingent liabilities	25,671,426	35,070,282
Total contingent liabilities	**37,622,800**	**35,070,282**
Irrevocable commitments	**184,000**	**15,450,715**
Loan commitments	**0**	**0**
Call commitments and additional funding obligations	**0**	**0**
Positive replacement values	**7,690,245**	**2,078,321**
Negative replacement values	**5,630,178**	**6,629,012**
Contract volume	**1,427,659,169**	**225,584,928**
Fiduciary transactions	**237,203,389**	**134,847,185**

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, private banking 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 separate 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 applied the following new or revised standards and interpretations for the first time in 2009:

IFRS 8 – Operating Segments

IFRS 8 introduces the management approach, which requires segment reporting to be performed in accordance with internal financial reporting structures. This standard has no effect on the Valartis Group's net profit or shareholders' equity.

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 Valartis Group includes all components of income in the statement of comprehensive income. The recognition, measurement and disclosure of specific transactions and of other relevant events remain unchanged.

IFRS 7 – Financial Instruments (Amended)

The amended standard requires greater information on financial instruments measured at fair value according to a three-level fair value hierarchy that reflects the importance of the parameters used in the measurement methods. The amendments also provide for greater qualitative and quantitative information on liquidity risks. The disclosure on financial instruments is provided in Note 43. The disclosure regarding liquidity risks is given in Point 7, “Risk Management and Risk Control”. The new provisions have no effect on the Valartis Group's net profit or shareholders' equity.

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 requirements relating to such equity instruments. The amendments entered into effect on 1 January 2009. The new provisions have no effect on the Valartis Group's net profit or shareholders' equity.

IFRS 2 – Share-based Payment

The amendments to IFRS 2 concern the clarification of the definition of vesting conditions and the accounting treatment of cancellations.

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

IFRS 3 introduces significant amendments to the accounting treatment of business combinations that take place after the effective date of the amendments (1 July 2009). There are implications for the accounting treatment of transaction costs, for the initial recognition and subsequent measurement of a contingent consideration and for business combinations by means of successive share purchases. These new rules have an effect on the carrying amount of goodwill, on the profit or loss for the reporting period in which the business combination takes place, and on future profits or losses.

IAS 27 states that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Therefore, such a transaction cannot result in either goodwill or a gain or loss being recognised. In addition, amendments have been made to provisions concerning the allocation of losses to the owners of the parent and to the non-controlling interests, and to accounting rules for transactions leading to a loss of control. The new rules under IFRS 3 and IAS 27 will have an impact on future acquisitions or the loss of control of subsidiaries, and on transactions with non-controlling interests. The new rules were applied accordingly to the acquisition of Valartis Bank (Liechtenstein) AG, Bendern.

Other new standards and interpretations

The planned improvements to standards focus primarily on reducing inconsistencies and on making the wording less ambiguous.

The first-time application of the following new or revised standards had no effect on the Valartis Group:

IAS 32/IAS 1	Puttable financial instruments and obligations arising on liquidation
IAS 23	Borrowing Costs
Annual Improvements Project (2008 publication)	
IFRS 1 and IAS 27	Cost in the parent's separate financial statements of its investment in a subsidiary
IFRIC 9/IAS 39	Accounting treatment of embedded derivatives on reclassification
IAS 40	Investment Property
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate

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 2010. The Valartis Group has not made use of the possibility of early application.

IFRS 9 – Financial Instruments

This new standard will replace IAS 39 with effect from 2013. Voluntary early application of the rules for "classification of financial instruments" is permitted for financial years ending 31 December 2009. However, the Valartis Group is not making use of this possibility of early application. Three areas, namely "financial liabilities", "amortised cost and impairment" and "hedge accounting" are still in the project phase. The final standard covering these areas will be published during the course of 2010. The main amendment is that there will in future be only two measurement options, namely measurement at fair value and measurement at amortised cost. The fair value option will only be applicable where there is an "accounting mismatch". In addition, the treatment of embedded derivatives will be simplified, while entities may elect, on an instrument-by-instrument basis, to present in other comprehensive income – rather than recognising in profit or loss – changes in the fair value of an investment in an equity instrument that is not held for trading. The Valartis Group is currently analysing the implications of the new rules.

Other new standards and interpretations

The following new standards and interpretations applicable for financial years beginning 1 January 2010 or later, are considered unlikely, on the basis of initial analyses, to have a material impact on the net profit or loss or on the shareholders' equity of the Valartis Group:

IAS 39	Risk positions that qualify for hedge accounting
IFRS 2	Group Cash-Settled Share-based Payment
Annual Improvements Project 2009	

3.3 Other changes

Until 30 June 2008, the Valartis Group reported software under "Goodwill and other intangible assets". Since 2008, software has been included under the position "Property, plant and equipment". Accordingly, the amortisation of software is reported as depreciation of property, plant and equipment. This change had no effect on net profit or loss, or on consolidated shareholders' equity.

In the reporting year, custody assets and leveraged funds were included in the calculation of client assets. The prior-year figures have been adjusted accordingly.

4. Approval of the Consolidated Financial Statements

The 2009 consolidated financial statements were released by the Board of Directors on 22 March 2010. 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 4 May 2010.

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 intercompany 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 amount 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 net profit are stated separately in the consolidated statement of financial position 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 associated company 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 associated company in order to identify any necessary adjustments and any positive or negative goodwill ("bargain purchase"). 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 business combination (negative goodwill)" (IAS 28.23b). Subsequently, the carrying amount of the associated company is increased or decreased depending on the Group's share in the profit or loss of the associated company.

Changes in the scope of consolidation

On 17 December 2009, Valartis Group AG completed the full acquisition of Valartis Bank (Liechtenstein) AG. Detailed information on this acquisition can be found in the Notes on page 104.

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 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 differences 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:

	2009 Balance sheet date rate	2009 Annual average rate	2008 Balance sheet date rate	2008 Annual average rate
EUR	1.483	1.510	1.490	1.580
USD	1.030	1.087	1.068	1.094
GBP	1.670	1.697	1.561	1.969
CAD	0.982	0.953	0.875	1.010

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, Private Banking 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 fulfilled 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 ("Other financial assets/liabilities at fair value")
- 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 include money market papers, 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 papers, 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. These financial instruments 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 the definition of this term does not correspond to 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 amount is reduced to the recoverable amount and recognised in the income statement. Interest and dividend income are 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 measurement 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 amount 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 "Valuation adjustments, provisions and losses".

Non-performing loans are receivables for which the contractually agreed capital and/or 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. Impaired receivables are reclassified at full value if the outstanding capital and interest is 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 results 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 are 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 papers. 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 "Trading portfolio liabilities" (short sale). The position "Trading portfolio liabilities" 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 "Cash deposits for 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 fixed assets	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 amount may have been impaired. If the carrying amount exceeds the achievable income, the carrying amount 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 associated company.

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 knowledgeable, willing 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 Private Banking 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 valuation 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 amount exceeds the achievable income, an impairment is recognised.

5.9 Valuation adjustments

Valuation 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 present value of the expected future cash flows, discounted at the original effective interest rate. Valuation adjustments are recorded in the balance sheet as a reduction in the carrying amount of the receivables and recognised in the income statement under "Valuation 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 effective tax rate is applied to net profit.

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 expense" 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 Client assets

The calculation and identification of client assets is performed according to the Swiss Financial Market Supervisory Authority guidelines on bank accounting and financial reporting regulations (FINMA Circular 08/2). Client assets 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. Client assets 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 client assets. Double counts show those assets which are included more than once, i.e. in multiple categories of client assets 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 was 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 the value-driven success of the Valartis Group. Accordingly, taking risks with a view to returns is central to risk management and risk control.

Risk management and risk control were expanded in 2009 to enable existing and future business activities of the Valartis Group to be centrally steered. The basis is provided by the fundamental principles defined in the risk policy, with a redeveloped risk measurement and limit concept. This concept takes into account regulatory requirements and has also been fine-tuned to take further risks into account. In particular it includes a breakdown of products by market liquidity, as well as assumptions about the distribution of their market price fluctuations and a fine-tuning of the rating classification. Risk indicators are reported as economic risk capital (ERC), which reflects the product-specific loss potential in a stress scenario. The structure is therefore similar to the regulatory capital concept and allows various risks across different assets classes to be directly compared, so that an overall risk landscape can be presented.

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 prescribed 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 ensures in particular 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. From an organisational point of view, the Risk Office reports to the CFO of the Valartis Group.

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 with regard to content, responsibility, recipients and frequency are defined in the risk policy. Regulatory reporting takes the form of monthly reports submitted to the Board of Directors. The reports contain a structured presentation of the risk indicators – risk limits and utilisation – for the various business activities. As the underlying ERC concept enables the risks of different business activities to be added to their – in some cases very different – market correlations, the reporting can be hierarchically structured and focused without forfeiting the necessary accuracy or, in particular, the applicability of risk measurement methods. The risk report, in combination with the associated profitability figures, allows management to steer business activities with a view to achieving the best possible relationship between risk and reward.

7.2 Market risk

Market risk refers to the risk of a loss of value due to changes in the market prices of interest rate products, equities, currencies, commodities, other equity instruments and derivatives positions.

Market risk: investment banking and other securities portfolios

The trading positions of the Valartis Group are managed by Valartis Bank AG. Trading activities are focused on a fixed-income portfolio and on positions in the Swiss equities and options market and in the electricity and CO_2 market. The bank also conducts market-making activities.

The market risk of each of these trading activities is measured against an appropriate risk benchmark and must be kept within predefined limits. A specially adapted measurement method is used to report the risks of each business activity:

Liquid products

The value-at-risk (VaR) method is used to measure the risk of liquid products. VaR measures the magnitude of the loss for a portfolio that, under normal market conditions and for a specific probability, will not be exceeded over a given time horizon. Liquid products are products that can be sold within a day, so a one-day time horizon is used. Normally, a 99th percentile confidence interval is applied.

Less liquid products

Less liquid products may have a longer holding period, for instance because market liquidity does not allow positions to be built up or reduced quickly. The VaR method is not used for this product group. Instead, a risk estimate is carried out by conducting a stress scenario analysis; one example of such a scenario is a 25% fall in price accompanied at the same time by a 10% change in volatility.

Interest rate instruments

The market risks of interest rate instruments are calculated on the basis of a stress factor and the fair value of the instrument. The stress factor is determined by means of a rating classification, based in turn on the methods of different agencies and on internal measurement methods. The stress factor also includes values for liquidity and volatility risk. This internally applied ERC, which uses a refined risk measurement method, leads to a significantly more conservative risk assessment than is required from a regulatory point of view. The applicability of this method was also tested and validated in the "March 2009" stress test scenario.

The parameters of this risk measure are selected in such a way that different risk indicators, irrespective of their measurement method, can be compared with one another as ERC; in particular, the ERC can be analysed with a 99th percentile confidence interval by means of appropriate scaling on the basis of one-day VaR. The scaling factor is obtained by taking into account the comparability of risk measurement on the basis of the standard approach and that on the basis of the model approach. However, scaling does not represent a comprehensive VaR calculation.

Table 1: Economic risk capital of the trading portfolio assets of the Valartis Group expressed in amounts equivalent to VaR (99%, 1d)

	31.12.2009	∅	min.	max.
CHF mn				
Equity price risk	2.3	2.2	1.9	2.7
Interest rate instrument price risk	6.6	3.5	0.0	6.7
Total	**8.9**	**5.7**	**1.9**	**9.4**

Effective utilisation of the limit as at end-2009 was 75% for equity price risks and 89% for interest rate instrument price risks.

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 arise in the different Group companies. These risks are restricted by means of defined limits, monitored by the Group units and primarily transferred to Valartis Bank AG. The resulting net position from the Group companies is managed centrally by Valartis Bank AG.

Interest rate risk

The interest rate sensitivities of the market value of equity are shown in table 2. The table shows the change in market value for the main currencies, both for trading book and banking book positions, given an interest rate movement of +/– 100 basis points across all maturities.

Table 2: Market risks: significant interest rate risks in the trading and banking books

CHF '000		31.12.2009
	+1%	–1%
CHF	–921	1,096
EUR	–926	667
USD	–1,922	1,481

For the purposes of comparison, interest rate risks in the banking book only for these currencies are CHF –570,000 (+1%) and CHF 754,000 (–1%).

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 because they are centrally managed.

Table 3: Significant exchange rate risks in the trading and ban-king books

CHF '000	31.12.2009	31.12.2008
+1%	Currency sensitivity	Currency sensitivity
EUR	–111	–213
CAD	–18	7
GBP	28	10
RUB	30	–
DZD	272	199
USD	87	708
other	–22	–10

7.3 Liquidity risk

Liquidity risk is the risk that the Group may not have sufficient liquid funds available to meet its short-term payment obligations.

Management of liquidity risk

Operational liquidity management is delegated to 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" (Note 32) shows future cash flows based on the earliest possible contractual maturity, disregarding assumptions about the probability of individual cash flows. In particular, the Group has CHF 819.7 million in trading portfolio assets eligible for repo transactions (Note 16).

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

The direct lending business is handled by the banks. In the management and monitoring of lombard loans, the market value of the existing collateral is reduced by loan-to-value 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 lending business of Group companies is kept within limits defined by the Board of Directors.

Tabelle 4: Credit risk: overview of collateral

	Mortgage-backed	Backed by collateral recognised under Basel II	Backed by collateral exceeding Basel II requirements	No collateral	**Total**
	CHF '000	CHF '000	CHF '000	CHF '000	**CHF '000**
Loans					
Due from clients	10,625	78,780	60,531	35,132	185,068
of which mortgage loans					0
Residential property	820				820
Office and business property	1,995				1,995
Commercial and industrial property	7,810				7,810
Other	0				0
Total loans at 31 December 2009	**10,625**	**78,780**	**60,531**	**35,132**	**185,068**
Off-balance-sheet items					
Contingent liabilities	0	14,112	0	10,392	24,504
Irrevocable commitments	0	0	0	46	46
Call commitments and additional funding obligations	0	0	0	0	0
Add-ons	0	0	0	4,757	4,757
Total off balance sheet items at 31 December 2009	**0**	**14,112**	**0**	**15,195**	**29,307**

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 2009, no equity was reserved for cluster risks. Country risk in lending business mainly arises from interbank business. At 31 December 2009, foreign commitments totalled CHF 1.12 billion, or 94% of the total lending volume.

The calculation of credit risk in tables 4 to 9 was carried out on the basis of the capital adequacy requirements for credit risks under Basel II. In particular, off-balance-sheet items are weighted and reported with the corresponding credit conversion factors. For these reasons, the figures reported in tables 4 to 9 deviate from the balance sheet values under IFRS.

Table 5: Credit risk: total credit risk/geographical credit risk

	Switzerland CHF '000	Europe CHF '000	Other CHF '000	**Total CHF '000**
Due from banks	29,395	724,413	16,673	770,481
Due from clients	18,234	89,083	77,751	185,068
Financial instruments	2,697	47,523	33,926	84,146
Other assets	6,835	49,726	11,580	68,141
Derivative financial instruments	5,451	478	1,761	7,690
Subtotal	**62,612**	**911,223**	**141,691**	**1,115,526**
Contingent liabilities	1,938	8,325	14,241	24,504
Irrevocable commitments	46	0	0	46
Call commitments and additional funding obligations	0	0	0	0
Add-ons	3,899	805	53	4,757
Total at 31 December 2009	**68,495**	**920,353**	**155,985**	**1,144,833**

Table 6: Credit risk: total credit risk/breakdown by counterparty

	Central banks CHF '000	Banks CHF '000	Public sector entities CHF '000	Private and institutional investment clients CHF '000	Other CHF '000	**Total CHF '000**
Due from banks	13,237	737,579	19,665	0	0	770,481
Due from clients	0	0	0	183,681	1,387	185,068
Financial instruments	8,734	19,751	0	0	55,661	84,146
Other assets	2,094	16,126	615	0	49,306	68,141
Derivative financial instruments	0	5,426	0	1,999	265	7,690
Subtotal	**24,065**	**778,882**	**20,280**	**185,680**	**106,619**	**1,115,526**
Contingent liabilities	2	518	0	23,984	0	24,504
Irrevocable commitments	0	0	46	0	0	46
Call commitments and additional funding obligations	0	0	0	0	0	0
Add-ons	0	3,610	0	1,147	0	4,757
Total at 31 December 2009	**24,067**	**783,010**	**20,326**	**210,811**	**106,619**	**1,144,833**

Table 7: Credit risk: quality of assets

	AAA to AA- CHF '000	A+ to BBB- CHF '000	BB+ or lower CHF '000	No external rating CHF '000	Net value of impaired loans CHF '000	**Total CHF '000**
Due from banks	565,404	176,678	0	28,399	0	770,481
Due from clients	0	0	0	170,586	14,482	185,068
Financial instruments	5,086	0	0	79,060	0	84,146
Other assets	3,026	738	602	63,775	0	68,141
Derivative financial instruments	3,492	139	0	4,059	0	7,690
Subtotal	**577,008**	**177,555**	**602**	**345,879**	**14,482**	**1,115,526**
Contingent liabilities	0	17	0	24,487	0	24,504
Irrevocable commitments	0	0	0	46	0	46
Call commitments and additional funding obligations	0	0	0	0	0	0
Add-ons	2,017	150	0	2,590	0	4,757
Total at 31 December 2009	**579,025**	**177,722**	**602**	**373,002**	**14,482**	**1,144,833**

Table 8: Credit risk: impaired loans (gross) by maturity

	Less than 30 days CHF '000	Between 31 and 60 days CHF '000	Between 61 and 90 days CHF '000	91 days or more CHF '000	**Total CHF '000**
Due from banks	0	0	0	0	0
Due from clients	19,264	0	1,869	0	21,133
of which loans and advances	11,459	0	0	0	11,459
of which mortgages	7,805	0	1,869	0	9,674
Total at 31 December 2009	**19,264**	**0**	**1,869**	**0**	**21,133**

Table 9: Credit risk: impaired client loans by geographical region

	31.12.2009	
	Fair value	Effective liability
	CHF '000	CHF '000
Switzerland	1	1
Europe	7,617	7,617
Other	13,515	13,515
Total	**21,133**	**21,133**

As at 31 December 2009, the Group had impaired loans of CHF 21.1 million gross. These loans were covered by collateral with an estimated liquidation value of CHF 14.5 million. The uncovered portion of these loans (CHF 6.7 million) was written down and offset against amounts due from clients.

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

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 risks as well as reputational risks. However, it 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
In order to measure the equity requirements for market risk in the trading book, the Swiss standard method is used at both Bank and Group level.

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 fulfils the capital adequacy requirements of Basel II. 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. During the reporting period, the Valartis Group changed the weighting method for these positions. Instead of the original weighting of positions without using external ratings in accordance with Article 50 para. 5 of the Swiss Federal Ordinance on Capital Adequacy (ERV), all positions except for those in the “companies” category are now weighted on the basis of ratings from external agencies in accordance with Article 50 para. 4 ERV for the calculation of equity. Where no ratings are available, the “not rated” rating category is still used to weight the positions concerned. 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 44 to the consolidated financial statements.

The participation in Eastern Property Holding was reported under “Associated companies” as at 31 December 2009 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 nor proportionally consolidated. Furthermore, there are no restrictions 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 1.1% of the applicable eligible core capital of CHF 265.1 million. Valartis Group AG also received a subordinated loan from Anglo Irish Bank Corporation plc, Dublin, in the amount of CHF 35.6 million (EUR 24 million) which fulfils the requirements of Article 27 ERV. The first 20% of this amount was written down at the end of the

year. The remaining amount of CHF 28.5 million corresponds to 10.8% of the applicable eligible core capital of CHF 265.1 million. Through the acquisition of Hypo Investment Bank (Liechtenstein) AG, a subordinated loan in the amount of CHF 20 million was acquired, which the original parent company, Vorarlberger Landes- und Hypothekenbank AG, had granted to its former subsidiary. This loan also meets the requirements under Article 27 ERV.

Tabelle 10: Capital adequacy

CHF '000	Method used	31.12.2009 Required capital	31.12.2008 Required capital
Required capital			
Credit risk	Swiss standard	44,855	40,907
Non-counterparty risks	Swiss standard	92,273	68,973
Market risk	Standard	38,853	15,713
of which on interest rate instruments (general and specific market risk)	Standard	25,194	562
of which on equity instruments	Standard	8,492	5,543
of which on currencies and precious metals	Standard	4,321	9,291
of which on commodities	Standard	846	317
Operational risk	Basic indicator	25,624	15,195
Total capital requirement		**201,605**	**140,788**
Eligible capital			
Gross core capital (equity and reserves)		363,356	284,470
of which minority interests		70,410	46,990
Other elements to be deducted from core capital (goodwill and non-consolidated participations)		–98,260	–87,230
Total eligible core capital		**265,096**	**197,240**
+ Supplementary capital and additional capital		50,495	37,692
– Other deductions from supplementary capital, additional capital and total capital		0	0
Total eligible capital		**315,591**	**234,932**
Ratio of eligible to required capital		**1.57**	**1.67**

Notes to the Consolidated Income Statement

1. Income from Interest and Dividend Business

	31.12.2009 CHF	31.12.2008 CHF
Interest income form banking business	8,319,976	2,967,840
Interest income from client business	4,185,744	595,927
Interest and dividend income from the trading portfolio	29,965,273	4,483,798
Interest income from mortgage business	1,031,666	1,150,249
Interest and dividend income from financial assets at fair value	177,869	0
Other interest income	197,840	0
Total interest and dividend income	**43,878,368**	**9,197,814**
Interest expense from banking business	–7,618,201	–4,121,563
Interest expense from client business	–7,707,364	–1,917,641
Interest expense from the trading portfolio	–36,250	0
Other interest expense	–824,534	–10,053
Total interest expense	**–16,186,349**	**–6,049,257**
Total	**27,692,019**	**3,148,557**

2. Income from Commission and Service Fee Business

	31.12.2009 CHF	31.12.2008 CHF
Commission income from loan business	677,116	784,996
Brokerage fees	6,023,536	4,134,043
Custody account fees	4,194,674	1,090,460
Commission on investment advice and asset management	28,266,986	42,785,060
Issuing business	1,974,031	3,006,732
Commission income from fiduciary business	887,715	450,083
Commission income from retrocessions	530,392	6,228
Other commission income	5,915,195	7,798,088
Total income from commission and service fee business	**48,469,645**	**60,055,690**
Brokerage expense	–2,112,353	–1,256,286
Asset management/fund management by third parties	–756,992	242,288
Commission expense to client intermediaries and representatives	–1,565,483	–38,432
Other securities trading expense	–416,525	–165,817
Commission expense on retrocessions to third parties	–511,007	–702,248
Other commission and service fee expense	–1,143,853	–9,558,496
Total expense from commission and service fee business	**–6,506,213**	**–11,478,991**
Total	**41,963,432**	**48,576,699**

3. Income from Trading

	31.12.2009 CHF	31.12.2008 CHF
Interest rate instruments	41,170,446	0
Securities	32,662,720	–58,274,116
Currencies and precious metals	3,595,522	1,848,022
Total	**77,428,688**	**–56,426,094**

4. Other Ordinary Income

	31.12.2009 CHF	31.12.2008 CHF
Income from real estate	242,384	0
Income from business combination (negative goodwill)	0	14,023,795
Income from the sale of financial assets available for sale	227,209	2,650,133
Income from associated companies	13,254,522	41,467,832
Other income	1,941,458	–1,404,714
Total	**15,665,573**	**56,737,046**

Income from the sale of financial assets available for sale		
Equity instruments	227,209	2,650,133
Total	**227,209**	**2,650,133**

Income from associated companies		
Impairment loss	–179,179	–4,401
Appreciation	13,433,701	41,472,233
Total	**13,254,522**	**41,467,832**

5. Personnel Expense

	31.12.2009 CHF	31.12.2008 CHF
Salaries and bonuses	35,835,245	26,714,069
Social security benefits	4,523,995	3,688,648
Contributions to occupational pension plans	2,537,776	1,425,541
Other personnel expense	2,945,484	3,267,823
Total	**45,842,500**	**35,096,081**

6. General Expense

	31.12.2009 CHF	31.12.2008 CHF
Occupancy expense	4,303,245	2,828,409
IT and information expense	6,943,040	5,386,864
Office and business expense	12,701,186	14,294,342
Other general expense	1,728,190	622,739
Total	**25,675,661**	**23,132,354**

7. Depreciation and Amortisation

	31.12.2009 CHF	31.12.2008 CHF
Depreciation of property, plant and equipment	6,778,117	1,354,080
Amortisation of intangible assets	5,176,757	1,414,940
Total	**11,954,874**	**2,769,020**

8. Valuation Adjustments, Provisions and Losses

	31.12.2009 CHF	31.12.2008 CHF
Impairments	2,231,616	0
Impairment reversals	–813,532	0
Change in provisions	121,680	155,000
Total	**1,539,764**	**155,000**

9. Taxes

Income taxes

	2009 CHF	2008 CHF
Current income and capital taxes	1,387,330	–4,144,139
Reclassification of capital taxes to administrative expense	0	191,529
Change in deferred taxes	9,760,359	9,096,994
Total	**11,147,689**	**5,144,384**

Analysis of income tax charges

Net profit before taxes	77,736,913	–9,116,247
Expected income tax rate	16.0%	16.0%
Expected income taxes	12,437,906	–1,458,599
Difference between expected and actual tax rate	969,981	–5,543,201
Prior-year adjustments	0	458,022
Equity holding relief for holding companies	–1,872,658	0
Expenses disregarded for tax purposes	0	818,675
Other effects including gains from treasury shares and derivatives	–387,540	580,719
Effective income tax	**11,147,689**	**–5,144,384**
Effective income tax rate	14.3%	56.4%

Deferred taxes

	31.12.2009 CHF	31.12.2008 CHF
Deferred tax claims		
Position at 1 January	23,715,648	270,201
Change taken through profit and loss	–7,434,060	8,786,195
Change not taken through profit and loss	0	109
Change in scope of consolidation	99,815	14,709,261
Foreign exchange translation differences	–58,872	–50,118
Position at 31 December [1]	**16,322,531**	**23,715,648**
Deferred tax liabilities		
Position at 1 January	30,012,061	3,665,016
Change taken through profit and loss	2,326,299	4,075,323
Change not taken through profit and loss	–33,106	1,219,743
Change in scope of consolidation	2,989,240	21,051,979
Foreign exchange translation differences	–72,102	0
Position at 31 December	**35,222,392**	**30,012,061**
Expiry of non-capitalised tax allowances for losses		
Within 1 year	0	0
From 1 to 5 years	1,136,785	0
After 5 years	2,380,161	1,799,398
Total	**3,516,946**	**1,799,398**

1) Tax asset of CHF 13.8 million connected with the acquisition of Valartis Bank (Austria) AG and tax loss carryforward of CHF 2.5 million.

10. Earnings per Share

	31.12.2009	31.12.2008
Net profit of Valartis Group AG (CHF)	62,766,637	3,296,134
Weighted average number of shares	5,000,000	5,000,000
Less weighted average number of treasury shares	–312,278	–55,084
Undiluted weighted average number of shares	4,687,722	4,944,916
Relevant outstanding share options, number of shares	250,000	250,000
Diluted weighted average number of shares	4,937,722	5,194,916
Earnings per share of Valartis Group AG (undiluted, CHF)	13.39	0.67
Earnings per share of Valartis Group AG (diluted, CHF)	12.71	0.63

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

11. Employee Share Options

The new employee share option programme is described from page 49 onwards.

12. Employee Pensions

Pension plans are in place for the majority of Valartis Group employees. They provide benefits in the event of death, disability, retirement or termination of employment.

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 2009.

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:

	31.12.2009 CHF '000	31.12.2008 CHF '000
Balance sheet items		
Present value of pension liabilities	14,575	13,954
Market value of plan assets	11,195	10,054
Uncovered pension liabilities	**3,380**	3,900
Unrecognised actuarial gain/loss	–277	–799
Total net liabilities/assets[1)]	**3,103**	**3,101**

1) In accordance with statutory regulations in Austria, Valartis Bank (Austria) AG is not required 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-2009.

	2009 CHF '000	2008 CHF '000
Change in net liabilities/assets on the balance sheet		
Net liabilities at 1 January	3,101	–270
Pension expense of employer	955	310
Employer contributions	–391	–388
Paid out benefits	–529	0
Foreign exchange (gain)/loss	–33	0
Addition arising from change in scope of consolidation	0	3,449
Net liabilities at 31 December	**3,103**	**3,101**

Expense from employee pension plans		
Annual pension costs	934	720
Interest on pension liabilities	652	246
Expected return on plan assets	–248	–268
Actuarial loss not recognised in the balance sheet	8	0
Employee contributions	–391	–388
Employer's pension expense for defined-benefit plans	**955**	**310**
Employer's pension expense for defined-contribution plans	1,583	1,116
Total pension expense	**2,538**	**1,426**

	2009 CHF '000	2008 CHF '000
Change in pension liabilities		
Present value of pension liabilities at 1 January	13,954	9,225
Annual pension costs	934	720
Interest on pension liabilities	652	246
Paid out benefits and vested benefits	–67	–3,331
Actuarial (gain)/loss	–874	30
Foreign exchange (gain)/loss	–24	0
Addition arising from change in scope of consolidation	0	7,064
Present value of pension liabilities at 31 December	**14,575**	**13,954**

	2009 CHF '000	2008 CHF '000
Change in pension assets		
Market value of available pension assets at 1 January	10,054	8,943
Employee contributions	391	388
Employer contributions	391	388
Paid out benefits and vested benefits	462	–3,331
Expected return on plan assets	248	268
Actuarial (gain)/loss	–351	–217
Addition arising from change in scope of consolidation	0	3,615
Market value of available pension assets at 31 December	**11,195**	**10,054**

	31.12.2009 in %	31.12.2008 in %
Actuarial assumptions		
Discount rate (Switzerland)	3.25	3.25
Discount rate (Austria)	5.75	5.50
Expected return on plan assets	3.50	3.50
Expected rate of salary increases	1.50–2.00	1.50–2.00
Change in retirement assets	3.25	3.25–3.50

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.

Notes to the Consolidated Statement of Financial Position

13. Cash

	31.12.2009 CHF	31.12.2008 CHF
Cash balance	1,785,451	186,833
Sight deposits with central banks	283,392,916	66,146,110
Sight deposits with post offices	201,017	172,387
Money market funds	5,490,825	393,537
Total	**290,870,209**	**66,898,867**

14. Due from Banks and Clients

	31.12.2009 CHF	31.12.2008 CHF
Due from banks at sight	220,482,390	658,828,030
Due from banks, time deposits	549,998,246	242,842,739
Total due from banks	**770,480,636**	**901,670,769**
Due from clients – secured by mortgage	12,494,003	10,752,000
Due from clients – other collateral	144,092,769	37,372,575
Due from clients – no collateral	35,132,212	60,720,127
Subtotal	**191,718,984**	**108,844,702**
Valuation adjustments for default risk	–6,650,542	–3,483,568
Total due from clients	**185,068,442**	**105,361,134**

15. Valuation Adjustments for Credit Risks

	31.12.2009 CHF	31.12.2008 CHF
Position at 1 January	3,483,568	0
Change in scope of consolidation	1,538,179	1,974,200
Utilised/released in accordance with designated purpose	289,766	1,509,368
Newly formed valuation adjustments for default risks	1,892,712	0
Release of valuation adjustments for default risks	–545,103	0
Foreign currency translation	–8,580	0
Other adjustments	0	0
Position at 31 December	**6,650,542**	**3,483,568**
of which on amounts due from banks	0	0
of which on amounts due from clients	6,650,542	3,483,568
Impaired loans		
Impaired loans (gross)	21,132,540	7,422,948
Estimated realisation proceeds from collateral	14,481,998	3,939,380
Impaired loans (net)	**6,650,542**	**3,483,568**
Specific valuation adjustments on impaired loans	6,650,542	3,483,568
Average impaired loans (gross)	14,277,744	3,711,474
Non-performing loans		
Non-performing loans (gross)	0	0
Specific valuation adjustments on non-performing loans	0	0
Net receivables	**0**	**0**
Average non-performing loans (gross)	0	0

16. Trading Portfolio Assets

	31.12.2009 CHF	31.12.2008 CHF
Debt instruments		
Debt instruments of public sector entities	85,647,616	59,000
Debt instruments of financial institutions	417,233,536	0
Debt instruments of companies	576,601,832	2,531,126
Total debt instruments	**1,079,482,984**	**2,590,126**
of which listed	1,077,361,829	59,000
of which unlisted	2,121,155	2,531,126
Equity instruments		
Listed equity instruments	42,807,703	70,013,313
Unlisted equity instruments	0	0
Total equity instruments	**42,807,703**	**70,013,313**
Investment fund units		
Listed investment fund units	0	0
Unlisted investment fund units	9,442,409	0
Total investment fund units	**9,442,409**	**0**
Precious metals	**0**	**0**
Total trading portfolio assets	**1,131,733,096**	**72,603,439**
of which lent out	264,364,116	0
of which eligible for repo transactions	819,710,358	59,000
Equity instruments (short positions)		
Listed equity instruments	0	0
Unlisted equity instruments	0	0
Total equity instruments	**0**	**0**
Total net trading portfolio assets	**1,131,733,096**	**72,603,439**

17. Financial Assets

	31.12.2009 CHF	31.12.2008 CHF
Debt instruments		
Debt instruments of public sector entities	0	6,526,614
Debt instruments of financial institutions	3,734,830	0
Debt instruments of companies	2,552,001	0
Total debt instruments	**6,286,831**	**6,526,614**
of which listed	6,286,831	6,526,614
of which unlisted	0	0
Equity instruments		
Listed equity instruments	6,898,389	6,789,726
Unlisted equity instruments	47,620,068	27,598,493
Total equity instruments	**54,518,457**	**34,388,219**
Investment fund units		
Listed investment fund units	0	0
Unlisted investment fund units	2,851,496	0
Total investment fund units	**2,851,496**	**0**
Precious metals	**0**	**0**
Total financial assets available for sale	**63,656,784**	**40,914,833**
Debt instruments		
Debt instruments of public sector entities	4,824,806	0
Debt instruments of financial institutions	9,480,409	0
Debt instruments of companies	5,210,490	0
Total debt instruments	**19,515,705**	**0**
of which listed	19,515,705	0
of which unlisted	0	0
Total financial assets held to maturity	**19,515,705**	**0**

18. Other Financial Assets at Fair Value

	31.12.2009 CHF	31.12.2008 CHF
Debt instruments		
Debt instruments of public sector entities	0	0
Debt instruments of financial institutions	733,418	508,197
Debt instruments of companies	0	0
Total debt instruments	**733,418**	**508,197**
of which listed	733,418	508,197
of which unlisted	0	0
Equity instruments		
Listed equity instruments	0	0
Unlisted equity instruments	0	0
Total equity instruments	**0**	**0**
Investment fund units		
Listed investment fund units	0	0
Unlisted investment fund units	0	0
Total investment fund units	**0**	**0**
Precious metals	**240,177**	**147,808**
Total other financial assets at fair value	**973,595**	**656,005**

19. Associated Companies

	31.12.2009 CHF	31.12.2008 CHF
Position at 1 January	89,548,828	2,153,479
Additions	31,233,883	45,927,517
Valuation adjustments [1]	13,254,522	41,467,832
Position at 31 December	**134,037,233**	**89,548,828**
of which Jelmoli Bonus Card AG	1,969,899	2,149,078
of which Eastern Property Holdings Ltd.	132,067,334	87,399,750

1) In 2008, valuation adjustments prior to 30 June 2008 (i.e. prior to reporting as an associated company) were recorded in retained earnings.

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, based on current estimates.

	31.12.2009		31.12.2008	
	Total CHF '000	Stake 27.5%	Total CHF '000	Stake 27.5%
Assets	163,005	44,826	152,831	42,028
Liabilities	155,841	42,856	145,016	39,879
Equity	7,164	1,970	7,815	2,149

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 and as such represent assumptions and estimates by management.

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	38.08%

As at 31 December 2009, the Valartis Group held a 38% 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 31.50. 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 present value per share of USD 79.00, which was derived from cautious assumptions and estimates by the management of Valartis Group AG. It is uncertain whether the actual net present value per share may deviate from 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 equity method, which is based on net asset valuation, resulted in a CHF 7.1 million appreciation gain after deferred taxes.

The following table provides summarised financial information on the Group's investment in EPH as at 31 December 2009. As EPH's annual accounts have not yet been published, these figures are based on estimates.

	31.12.2009		31.12.2008	
	Total CHF '000	Stake 38.08%	Total CHF '000	Stake 19.87%
Assets	454,917	173,232	506,845	100,710
Liabilities	108,102	41,165	66,986	13,310
Equity	346,815	132,067	439,859	87,400

20. Property, Plant and Equipment

	Fixtures in third-party properties CHF	IT and telecommunications CHF	Other property, plant and equipment CHF	Property CHF	Software CHF	**Total CHF**
Acquisition costs						
Carrying amount at 31 December 2007	3,284,819	1,190,161	1,129,204	14,180,409	851,673	20,636,266
Change in scope of consolidation	585,934	0	4,354,894	31,445,586	32,178,980	68,565,394
Investments	31,915	853,922	994,404	37,150,137	807,482	39,837,860
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 amount at 31 December 2008	**3,902,667**	**1,974,160**	**5,773,688**	**68,731,248**	**33,831,435**	**114,213,198**
Change in scope of consolidation	0	2,410,634	10,521,684	17,807,099	3,370,927	34,110,344
Investments	603,929	46,399	658,647	41,871,759	415,108	43,595,842
Disinvestments	0	0	–857,850	0	0	–857,850
Foreign exchange translation differences	–6,342	–3,664	–26,895	–3,631,338	–151,587	–3,819,826
Carrying amount at 31 December 2009	**4,500,254**	**4,427,529**	**16,069,274**	**124,778,768**	**37,465,883**	**187,241,708**
Cumulative depreciation						
Carrying amount at 31 December 2007	–218,891	–272,004	–593,070	0	–81,202	–1,165,167
Change in scope of consolidation	–388,752	0	–2,995,928	–2,406,063	–12,919,651	–18,710,394
Depreciation	–332,100	–494,198	–151,919	0	–375,863	–1,354,080
Disinvestments	0	52,704	0	0	0	52,704
Foreign exchange translation differences	0	6,613	–40,944	0	1,572	–32,759
Carrying amount at 31 December 2008	**–939,743**	**–706,885**	**–3,781,861**	**–2,406,063**	**–13,375,144**	**–21,209,696**
Change in scope of consolidation	0	–1,307,080	–3,393,124	–122,597	–2,310,284	–7,133,085
Depreciation	–457,695	–661,375	–580,979	–623,600	–4,454,468	–6,778,117
Impairments	0	0	0	0	0	0
Disinvestments	0	0	815,210	0	0	815,210
Foreign exchange translation differences	3,372	1,629	14,642	22,236	129,338	171,217
Carrying amount at 31 December 2009	**–1,394,066**	**–2,673,711**	**–6,926,112**	**–3,130,024**	**–20,010,558**	**–34,134,471**
Net carrying amount at 31 December 2009	**3,106,188**	**1,753,818**	**9,143,162**	**121,648,744**	**17,455,325**	**153,107,237**
Net carrying amount at 31 December 2008	**2,962,924**	**1,267,275**	**1,991,827**	**66,325,185**	**20,456,291**	**93,003,502**

Additional information on property, plant and equipment

	31.12.2009 CHF
Fire insurance value of real estate	135,393,130
Fire insurance value of other property, plant and equipment	14,812,530

Operating leases

At 31 December 2009, there were a number of non-terminable operating leases for real estate and other property, plant and equipment, mostly used for the bank's business activities. The most important leases contained extension and termination clauses.

Future liabilities/receivables from operating leases

	31.12.2009 CHF	31.12.2008 CHF
Future liabilities from operating leases		
Remaining term to maturity up to 1 year	487,876	706,344
Remaining term to maturity up to 5 years	656,785	1,360,567
Remaining term to maturity over 5 years	0	0
Total	**1,144,661**	**2,066,911**
Future receivables from operating leases		
Remaining term to maturity up to 1 year	56,359	0
Remaining term to maturity up to 5 years	0	0
Remaining term to maturity over 5 years	0	0
Total	**56,359**	**0**

21. Accrued and Deferred Assets

	31.12.2009 CHF	31.12.2008 CHF
Management and performance fees	8,131,361	2,274,102
Accrued interest	30,127,595	778,574
Other accrued and deferred assets	6,546,586	9,576,692
Total	**44,805,542**	**12,629,368**

22. Open Derivative Financial Instruments (Trading Instruments)

	Positive replacement values CHF	Negative replacement values CHF	Contract volume CHF
Debt instruments			
Forward contracts	0	0	0
Swaps	211,842	1,749,463	113,000,000
Futures	0	0	392,824,360
Options (OTC)	0	0	0
Options (exchange-traded)	0	0	0
Total at 31 December 2009	**211,842**	**1,749,463**	**505,824,360**
Total at 31 December 2008	**0**	**0**	**0**
Currencies/precious metals			
Forward contracts	1,539,145	455,000	267,882,538
Combined interest rate and currency swaps	3,830,905	2,700,805	503,435,534
Futures	0	0	0
Options (OTC)	0	0	0
Options (exchange-traded)	0	0	0
Total at 31 December 2009	**5,370,050**	**3,155,805**	**771,318,072**
Total at 31 December 2008	**940,835**	**1,090,368**	**160,450,478**
Equity instruments/indices			
Forward contracts	0	0	0
Swaps	0	0	0
Futures	0	0	2,431,562
Options (OTC)	1,769,289	59,976	7,534,897
Options (exchange-traded)	0	117,859	4,248,410
Structured products	0	206,536	132,240,070
Total at 31 December 2009	**1,769,289**	**384,371**	**146,454,939**
Total at 31 December 2008	**483,552**	**4,593,905**	**61,833,757**
Others			
Forward contracts	339,064	340,539	4,061,798
Swaps	0	0	0
Futures	0	0	0
Options (OTC)	0	0	0
Options (exchange-traded)	0	0	0
Structured products	0	0	0
Total at 31 December 2009	**339,064**	**340,539**	**4,061,798**
Total at 31 December 2008	**653,934**	**944,739**	**3,300,693**
Total open derivative financial instruments at 31 December 2009	**7,690,245**	**5,630,178**	**1,427,659,169**
Total open derivative financial instruments at 31 December 2008	**2,078,321**	**6,629,012**	**225,584,928**

23. 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 amount 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 amount at 31 December 2008	**34,370,552**	**56,358,554**	**5,000,000**	**95,729,106**
Investments	0	40,349	0	40,349
Disinvestments	0	–26,401	0	–26,401
Change in scope of consolidation	5,125,806	11,228,600	0	16,354,406
Foreign exchange translation differences	–59,861	–170,863	0	–230,724
Carrying amount at 31 December 2009	**39,436,497**	**67,430,239**	**5,000,000**	**111,866,736**
Cumulative amortisation/impairment				
Carrying amount 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
Disinvestments	0	0	0	0
Foreign exchange translation differences	0	0	0	0
Carrying amount at 31 December 2008	**0**	**–9,574,213**	**0**	**–9,574,213**
Change in scope of consolidation	0	0	0	0
Amortisation	0	–5,176,757	0	–5,176,757
Losses from impairment	0	0	0	0
Disinvestments	0	26,401	0	26,401
Foreign exchange translation differences	0	64,772	0	64,772
Carrying amount at 31 December 2009	**0**	**–14,659,797**	**0**	**–14,659,797**
Net carrying amount at 31 December 2009	**39,436,497**	**52,770,442**	**5,000,000**	**97,206,939**
Net carrying amount at 31 December 2008	**34,370,552**	**46,784,341**	**5,000,000**	**86,154,893**

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 acquisition cost 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
Valartis Bank (Liechtenstein) AG	17.12.2009	5,125,806	11,228,600
Total		**39,496,358**	**72,587,154**

1) EUR 8,551,726 (converted at historical exchange rate on date of acquisition)

Examination of impairment for cash-generating units with goodwill
The carrying amount of the goodwill is CHF 39.5 million. Of this, CHF 10.11 million is attributable to the Investment Banking segment, CHF 10.58 million to Asset Management and CHF 18.81 million to Private Banking. The Valartis Group carried out its impairment test as at 31 December 2009.

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 8.5% 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.

Carrying amounts of goodwill and intangible assets
The carrying amounts of goodwill and intangible assets (after amortisation) are allocated to the cash-generating units at 31 December 2009 as follows:

	Goodwill CHF '000	Intangible assets CHF '000	Total CHF '000
Valartis Group AG	20,693	10,953	31,646
Valaxis Asset Management S.A.	933	2,905	3,838
Valartis Bank (Austria) AG	12,745	32,684	45,429
Valartis Bank (Liechtenstein) AG	5,126	11,229	16,355
Total	**39,497**	**57,771**	**97,268**

24. Assets Pledged or Assigned to Secure Own Liabilities and Assets Subject to Retention of Title

	31.12.2009		31.12.2008	
	Market value CHF	Effective liability CHF	Market value CHF	Effective liability CHF
Amounts due from banks and clients	0	0	1,049,000	1,049,000
Securities and precious metals in the trading portfolio	374,023,547	353,694,097	0	0
Total	**374,023,547**	**353,694,097**	**1,049,000**	**1,049,000**

25. Lending and Repurchase Transactions with Securities

	31.12.2009 CHF	31.12.2008 CHF
Carrying amount of receivables from cash deposits in securities borrowing and reverse repurchase transactions	0	0
Carrying amount of liabilities from cash deposits in securities lending and repurchase transactions	263,497,000	0
Carrying amount of own securities loaned in securities lending transactions or delivered as collateral in securities borrowing transactions or transferred to the bank's ownership in repurchase transactions	264,364,116	43,904,250
of which with unlimited right to resell or repledge	264,364,116	43,904,250
Fair value of securities loaned as collateral in securities lending transactions or borrowed in securities borrowing transactions or received through reverse repurchase transactions with unlimited right to resell or repledge	801,875	43,904,250
of which fair value of resold or repledged securities	0	0

26. Due to Clients

	31.12.2009 CHF	31.12.2008 CHF
Due to clients in the form of savings and investments	642,813	0
Other amounts due to clients	1,729,992,016	969,651,749
Total	**1,730,634,829**	**969,651,749**

27. Accrued and Deferred Liabilities

	31.12.2009 CHF	31.12.2008 CHF
Trailer fees	8,332,233	9,680,257
Accrued salaries, bonuses and social security benefits	6,414,887	5,386,129
Other accrued and deferred liabilities	5,343,594	2,141,734
Total	**20,090,714**	**17,208,120**

28. Valuation Adjustments and Provisions

	Provision for non payment risks (delcredere and country risks) CHF	Provision for other business risks CHF	Other provisions CHF	Total according to balance sheet 2009 CHF	Total according to balance sheet 2008 CHF
Position at 1 January	0	0	8,920,817	8,920,817	1,423,000
Utilised/released in accordance with designated purpose	0	0	–456,208	–456,208	0
Newly formed and charged to income statement	0	0	121,680	121,680	260,000
Released and credited to income statement	0	0	–737,501	–737,501	–105,000
Transfers	0	0	0	0	0
Change in scope of consolidation	0	217,867	700,000	917,867	7,342,817
Foreign exchange translation differences	0	0	–20,254	–20,254	0
Position at 31 December	**0**	**217,867**	**8,528,534**	**8,746,401**	**8,920,817**

The position “Valuation adjustments and provisions” mainly includes provisions for operational risk.

29. Share Capital

	31.12.2009 CHF	31.12.2008 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 (attributable to shareholders of Valartis Group AG, before appropriation of profit)	63	49

A dividend of CHF 0.50 per share was distributed for financial year 2008. For financial year 2009, the Board of Directors is proposing to the Shareholders' Meeting a dividend of CHF 0.50 per share.

30. Treasury Shares

	31.12.2009 Number	31.12.2008 Number
Position at 1 January	74,982	41,188
Purchases	480,313	157,186
Sales	–107,125	–123,392
Position at 31 December	**448,170**	**74,982**

During the reporting period, 480,313 shares were purchased at CHF 20.49 each and 107,125 shares were sold at CHF 26.47 each. In the prior-year period, 157,186 shares were purchased at CHF 43.32 each and 123,392 shares were sold at CHF 55.21 each (average price). At the balance sheet date, the Valartis Group had 448,170 treasury shares at a weighted average acquisition value of CHF 27.20.

31. Consolidated Statement of Financial Position by Currency

	CHF CHF '000	EUR CHF '000	USD CHF '000	Others CHF '000	Total Currencies CHF '000
Assets					
Cash	270,003	20,349	75	443	290,870
Due from banks	49,694	413,450	224,346	82,991	770,481
Due from clients	42,743	75,093	51,257	15,976	185,068
Trading portfolio assets	183,342	811,763	103,984	32,644	1,131,733
Financial assets available for sale	0	9,728	51,292	2,636	63,657
Financial assets held to maturity	9,995	9,521	0	0	19,516
Other financial assets at fair value	0	974	0	0	974
Associated companies	1,970	0	132,067	0	134,037
Property, plant and equipment	31,525	44,923	0	76,659	153,107
Accrued and deferred assets	8,542	23,392	8,307	4,565	44,806
Positive replacement values	7,351	339	0	0	7,690
Other assets	2,744	4,955	0	278	7,977
Goodwill and other intangible assets	48,160	49,047	0	0	97,207
Deferred tax claims	1,765	14,557	0	0	16,323
On-balance-sheet assets	**657,833**	**1,478,092**	**571,329**	**216,191**	**2,923,445**
Delivery claims arising from foreign exchange spot and forward transactions	341,473	55,022	358,641	38,961	794,097
Delivery claims arising from foreign exchange options	86,516	0	0	0	86,516
Total at 31 December 2009	**1,085,822**	**1,533,114**	**929,970**	**255,152**	**3,804,058**
Total at 31 December 2008	**374,143**	**456,328**	**507,230**	**163,466**	**1,501,167**
Liabilities and shareholders' equity					
Due to banks	54,508	388,907	1,733	39,015	484,163
Cash deposits for repurchase agreements	130,000	133,497	0	0	263,497
Due to clients	139,983	788,989	639,994	161,669	1,730,635
Negative replacement values	5,287	341	3	0	5,630
Taxes	9,763	47	0	307	10,117
Accrued and deferred liabilities	12,658	6,407	220	806	20,091
Other liabilities	1,708	6,488	196	200	8,592
Valuation adjustments and provisions	2,236	6,511	0	0	8,746
Deferred tax liabilities	6,033	19,419	9,771	0	35,222
Shareholders' equity	356,751	0	0	0	356,751
On-balance-sheet liabilities	**718,927**	**1,350,605**	**651,917**	**201,997**	**2,923,445**
Delivery obligations arising from foreign exchange spot and forward transactions	296,006	234,170	238,586	19,861	788,623
Delivery obligations arising from foreign exchange options	2,158	0	0	0	2,158
Total at 31 December 2009	**1,017,091**	**1,584,775**	**890,503**	**221,858**	**3,714,226**
Total at 31 December 2008	**540,419**	**438,723**	**380,624**	**141,401**	**1,501,167**

32. Maturity Structure of Assets, Liabilities and Off-Balance-Sheet Items

	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	285,909	4,961	0	0	0	0	290,870
Due from banks	220,482	754	240,625	308,619	0	0	770,481
Due from clients	60,475	4,166	51,937	44,788	14,377	9,326	185,068
Trading portfolio assets	1,131,733	0	0	0	0	0	1,131,733
Financial assets available for sale	3,216	0	4,908	47,784	1,093	6,655	63,657
Financial assets held to maturity	0	0	500	0	15,061	3,955	19,516
Other financial assets at fair value	240	0	0	0	0	733	974
Associated companies	134,037	0	0	0	0	0	134,037
Property, plant and equipment	25,407	0	825	4,442	91,034	31,400	153,107
Accrued and deferred assets	25,406	3,398	4,319	11,682	0	0	44,806
Positive replacement values	34	0	5,415	199	1,836	205	7,690
Other assets	1,095	0	300	0	6,582	0	7,977
Goodwill and other intangible assets	0	0	0	6,797	27,186	63,224	97,207
Deferred tax claims	2,559	0	0	0	32	13,731	16,323
Total at 31 December 2009	**1,890,593**	**13,279**	**308,829**	**424,312**	**157,202**	**129,230**	**2,923,445**
Total at 31 December 2008	**968,504**	**9,001**	**172,400**	**111,835**	**29,071**	**210,356**	**1,501,167**
Liabilities							
Due to banks	8,356	0	74,627	267,727	76,913	56,539	484,163
Cash deposits for repurchase agreements	0	0	148,998	114,499	0	0	263,497
Due to clients	1,198,470	3,891	429,870	95,352	3,052	0	1,730,635
Negative replacement values	32	0	3,288	294	636	1,380	5,630
Taxes	5,700	0	0	4,417	0	0	10,117
Accrued and deferred liabilities	13,867	127	1,133	4,956	9	0	20,091
Other liabilities	2,585	0	415	5,592	0	0	8,592
Valuation adjustments and provisions	813	0	0	1,423	4,835	1,675	8,746
Deferred tax liabilities	10,767	0	0	2,592	9,254	12,609	35,222
Total at 31 December 2009	**1,240,589**	**4,017**	**658,331**	**496,853**	**94,700**	**72,203**	**2,566,694**
Total at 31 December 2008	**389,760**	**6,027**	**494,737**	**138,393**	**83,755**	**102,608**	**1,215,280**
Off-balance-sheet items							
Contingent liabilities	17,690	19,368	0	565	0	0	37,623
Irrevocable commitments	0	0	0	0	0	184	184
Total at 31 December 2009	**17,690**	**19,368**	**0**	**565**	**0**	**184**	**37,807**
Total at 31 December 2008	**17,186**	**0**	**17,884**	**15,451**	**0**	**0**	**50,521**

33. Assets and Liabilities by Domestic and Non-Domestic Positions

	Domestic CHF '000	Non-domestic CHF '000	Total CHF '000
Assets			
Cash	269,742	21,129	290,870
Due from banks	29,385	741,096	770,481
Due from clients	10,563	174,505	185,068
Trading portfolio assets	168,877	962,856	1,131,733
Financial assets available for sale	0	63,657	63,657
Financial assets held to maturity	0	19,516	19,516
Other financial assets at fair value	0	974	974
Associated companies	1,970	132,067	134,037
Property, plant and equipment	4,547	148,560	153,107
Accrued and deferred assets	3,850	40,955	44,806
Positive replacement values	7,516	174	7,690
Other assets	2,663	5,314	7,977
Goodwill and other intangible assets	35,484	61,723	97,207
Deferred tax claims	1,698	14,625	16,323
Total at 31 December 2009	**536,295**	**2,387,151**	**2,923,445**
Total at 31 December 2008	**331,574**	**1,169,593**	**1,501,167**
Liabilities and shareholders' equity			
Due to banks	31,399	452,764	484,163
Cash deposits for repurchase agreements	241,248	22,250	263,497
Due to clients	75,852	1,654,783	1,730,635
Negative replacement values	5,437	193	5,630
Taxes	8,906	1,211	10,117
Accrued and deferred liabilities	7,820	12,270	20,091
Other liabilities	1,468	7,124	8,592
Valuation adjustments and provisions	1,318	7,428	8,746
Deferred tax liabilities	3,043	32,179	35,222
Shareholders' equity	356,751	0	356,751
Total at 31 December 2009	**733,243**	**2,190,203**	**2,923,445**
Total at 31 December 2008	**524,140**	**977,027**	**1,501,167**

34. Assets by Country or Region

	31.12.2009		31.12.2008	
	CHF '000	Proportion in %	CHF '000	Proportion in %
Switzerland	525,771	18.0%	331,574	22.1%
Europe	2,025,970	69.3%	1,075,136	71.6%
North America	165,236	5.6%	12,443	0.8%
Africa	86,649	3.0%	38,571	2.6%
Caribbean	74,331	2.5%	30,173	2.0%
Other	45,488	1.6%	13,270	0.9%
Total	**2,923,445**	**100.0%**	**1,501,167**	**100.0%**

35. Shareholder Structure

	31.12.2009 in %	31.12.2008 in %
MCG Holding S.A., Baar ZG	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, Zurich, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. The following are considered qualified investors: a) Gustav Stenbolt, who holds 72.6% of the voting rights (63.8% of the share capital) of MCG Holding S.A. (partly held through Tidesea Ltd, Gibraltar), b) Philipp LeibundGut, who holds 14.8% of the voting rights (19.4% of the share capital) of MCG Holding S.A. and c) Tudor Global Trading LLC, Greenwich, USA, which holds 12.2% of the voting rights (16.2% of the share capital) of MCG Holding S.A.

Acquisition of Valartis Bank (Liechtenstein) AG

On 17 December 2009, Valartis Group AG completed the full acquisition of Valartis Bank (Liechtenstein) AG, formerly Hypo Investment Bank (Liechtenstein) AG, which had been announced on 16 September 2009. In the transaction, Valartis Group AG, Baar, acquired 89% of the voting rights and 72.5% of the capital of Valartis Bank (Liechtenstein) AG. The remaining voting and capital rights were acquired by the management and employees of the Liechtenstein-based private bank. The Valartis Group holds call options enabling it to acquire the remaining equity instruments, at the earliest after seven years and at the latest within eight years, or upon departure of a member of staff. The acquisition is part of the Valartis Group's growth strategy in private banking.

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

CHF '000	Carrying amount 31.12.2009	Step-up to fair value	Fair value
Cash	5,777		5,777
Due from banks	704,698		704,698
Due from clients	69,528		69,528
Trading securities/financial investments	29,740		29,740
Other financial liabilities at fair value	34		34
Property, plant and equipment	25,144	1,833	26,977
Intangible assets	0	11,229	11,229
Deferred tax claims	32	68	100
Accrued and deferred assets	5,272		5,272
Other assets	97		97
Total assets	**840,322**	**13,130**	**853,452**
Due to banks	36,433		36,433
Due to clients	758,189		758,189
Other financial liabilities at fair value	32		32
Deferred taxes	1,030	1,959	2,989
Accrued and deferred liabilities	3,844		3,844
Provisions	468	450	918
Other liabilities	452		452
Total liabilities	**800,448**	**2,409**	**802,857**
Fair value of acquired net assets (100%)	39,874	10,721	50,595
Fair value of acquired net assets (72.47%)	28,898	7,770	36,668
Goodwill arising from acquisition			5,126
Purchase price paid			41,793
Cash acquired from acquisition			–5,777
Cash outflow from acquisition			36,016

The total purchase price of the acquisition was CHF 41.8 million.

As the acquisition was made just before year-end, the company acquired has not yet made a significant contribution to the consolidated earnings of the Valartis Group. If the acquisition had taken place at the beginning of 2009, operating income would have been CHF 187.5 million (instead of CHF 162.7 million) and Group net profit would have been approx. CHF 69.9 million (instead of CHF 62.8 million).

The goodwill of CHF 5.1 million resulting from the transaction mainly represents the value of the anticipated synergies from the acquisition. The goodwill is allocated to the Private Banking segment and is subject to an annual impairment test.

Related Parties and Companies

36. 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.

2009	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	16,946	16	0	16,962
Due to clients	939	3,306	5,889	1,514	11,648
Loans to governing bodies	128	170	0	0	298
Interest income	0	613	0	0	613
Interest expense	0	0	1	1	2
Other income	4	13	51	24	92
Other expense	0	0	0	0	0
Number of allocated options	0	0	0	0	0

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	16,138	2,961	242	19,341
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

1) Member of the Board of Directors and the Group Executive Board (excluding qualified investors)
2) See Note 35 to the consolidated financial statements
3) Jelmoli Bonus Card AG and Eastern Property Holdings Ltd, Note 19
4) These include all other related parties and companies that have a close personal, economic, legal or actual relationship with a member of the Board of Directors or the Group Executive Board.

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

2009	Basic remuneration in cash (including employee contributions) CHF	Basic remuneration in shares[1] CHF	Variable remuneration[2] CHF	Remuneration under share ownership programmes CHF	Employer's social security and pension fund contributions CHF	**Total remuneration CHF**
Members of the Board of Directors[3]						
Erwin W. Heri; Chairman	20,054	293,747	0	0	20,183	333,984
Stefan Holzer; Vice-Chairman	17,375	260,552	0	0	17,684	295,611
Philipp LeibundGut; Member[4]	258,610	0	200,000	0	86,706	545,316
Jean-François Ducrest; Member	79,830	0	0	0	5,836	85,666
Total Board of Directors	**375,869**	**554,299**	**200,000**	**0**	**130,409**	**1,260,577**
Members of the Group Executive Board[3]						
Gustav Stenbolt; CEO	608,400	0	1,000,000	0	174,573	1,782,973
Total Group Executive Board[5]	**1,398,317**	**0**	**1,350,000**	**0**	**402,799**	**3,151,116**

1) Remuneration in the form of shares is shown at the price for tax purposes.
2) In addition to the disclosed cash bonus, the members of the Group Executive Board also receive a non-binding prospective entitlement that is dependent on future attainment of objectives. This component of remuneration is recognised at the point at which definitive, binding allocation takes place (see explanation of the remuneration model on pages 49–50).
3) No options were allocated to members of the Board of Directors or Group Executive Board in 2009.
4) Position also includes remuneration paid to Philipp LeibundGut as an employee of Valartis Asset Management SA.
5) Includes remuneration of Reto Peczinka until end-April 2009 and Felix Morf until end-June 2009.

2008	Basic remuneration in cash (including employee contributions) CHF	Basic remuneration in shares[1] CHF	Variable remuneration CHF	Remuneration under share ownership programmes CHF	Employer's social security and pension fund contributions CHF	**Total remuneration CHF**
Members of the Board of Directors[2]						
Erwin W. Heri; Chairman	278,670	91,145	0	0	23,821	393,636
Stefan Holzer; Vice-Chairman	191,246	125,909	0	0	20,582	337,737
Philipp LeibundGut; Member[3]	236,455	0	0	0	67,198	303,653
Jean-François Ducrest; Member[4]	62,475	0	0	0	4,453	66,928
Total Board of Directors	**768,846**	**217,054**	**0**	**0**	**116,054**	**1,101,954**
Members of the Group Executive Board[2]						
Gustav Stenbolt; CEO	806,225	0	0	0	153,258	959,483
Total Group Executive Board	**2,024,500**	**0**	**400,000**	**0**	**480,132**	**2,904,632**

1) Remuneration in the form of shares is shown at the price for tax purposes.
2) No options were allocated to members of the Board of Directors or Group Executive Board in 2008.
3) This position also includes remuneration paid to Philipp LeibundGut as an employee of Valartis Asset Management SA.
4) Member of the Board of Directors with effect from 6 May 2008.

38. Loans, Equity Holdings and Option Holdings at Year-End

2009	Loans and advances	Number of shares	Number of options[1]	Related parties	
				Remuneration	Advances[2]
	CHF			CHF	CHF
Members of the Board of Directors					
Erwin W. Heri; Chairman	0	38,390	10,000	0	0
Stefan Holzer; Vice-Chairman	127,500	52,009	10,000	0	0
Philipp LeibundGut; Member[3]	127,500	368,534	10,000	0	790,479
Jean-Francois Ducrest; Member	0	1,500	0	0	0
Total Board of Directors	**255,000**	**460,433**	**30,000**	**0**	**790,479**
Members of the Executive Board					
Gustav Stenbolt; CEO[3]	1,027,199	1,816,454	15,000	0	15,127,621
Hanspeter Kaspar; CFO	0	0	0	0	0
Eric Berthelot	0	39,708	0	0	0
Total Group Executive Board	**1,027,199**	**1,856,162**	**15,000**	**0**	**15,127,621**

2008	Loans and advances	Number of shares	Number of options[1]	Related parties	
				Remuneration	Advances[2]
	CHF			CHF	CHF
Members of the Board of Directors					
Erwin W. Heri; Chairman	0	26,150	10,000	0	0
Stefan Holzer; Vice-Chairman	0	41,729	10,000	0	0
Philipp LeibundGut; Member[3]	0	368,534	10,000	0	790,479
Jean-Francois Ducrest; Member	0	500	0	0	0
Total Board of Directors	**0**	**436,913**	**30,000**	**0**	**790,479**
Members of the Executive Board					
Gustav Stenbolt; CEO[3]	850,753	1,816,454	15,000	0	14,477,621
Hanspeter Kaspar; CFO	0	0	0	0	0
Eric Berthelot	0	27,700	0	0	0
Reto Peczinka	0	15,725	25,000	0	0
Felix Morf	0	0	0	0	0
Total Group Executive Board	**850,753**	**1,859,879**	**40,000**	**0**	**14,477,621**

1) Each option confers the right to one Valartis Group AG bearer share at a strike price of CHF 85.00 until 18 March 2011.
2) Loans to the qualified investor MCG Holding S.A.were divided between Gustav Stenbolt and Philipp LiebundGut in proportion to their shares of the voting rights.
3) The holdings of Gustav Stenbolt and Philipp LeibundGut include the shares in Valartis Group AG held indirectly via MCG Holding S.A., in proportion to the voting rights under Note 35.

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

The Valartis Group is divided into three operational business segments: Asset Management, Private Banking 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 report 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 in the Corporate Center.

39. Primary Segment Reporting

2009	Investment Banking CHF '000	Asset Management CHF '000	Private Banking CHF '000	Corporate Center CHF '000	Total CHF '000
Operating income	76,894	50,413 [1]	39,317	–3,874	162,750
Administrative expense	–11,900	–21,297	–23,281	–15,040	–71,518
Service from/to other segments	–8,826	–2,114	–2,310	13,250	0
Gross operating profit	**56,168**	**27,002**	**13,726**	**–5,664**	**91,232**
Depreciation and amortisation	–1,130	–301	–439	–451	–2,321
Valuation adjustments, provisions and losses	–1,865	–4	329	0	–1,540
Segment result before amortisation	**53,173**	**26,697**	**13,616**	**–6,115**	**87,371**
Amortisation of tangible and intangible assets (PPA) [2]	–1,000	0	–8,634	0	–9,634
Segment result after amortisation	**52,173**	**26,697**	**4,982**	**–6,115**	**77,737**
Taxes					–11,148
Net profit					66,589
Net profit attributable to minority interests					3,822
Net profit attributable to shareholders of Valartis Group AG					**62,767**
Total assets	**1,297,922**	**562,844**	**2,205,301**	**–1,142,622**	**2,923,445**
Total liabilities	**1,126,051**	**257,668**	**2,008,411**	**–825,436**	**2,566,694**
Total investments	**352**	**42,352**	**50,425**	**88**	**93,217**
Assets under management at 31 December 2009	**748,864**	**1,307,655**	**4,321,617**	**0**	**6,378,136**
Number of employees at 31 December 2009	**34**	**83**	**156**	**29**	**302**

1) Income from associated companies is included in full in the segment result before taxes for the Asset Management segment and is CHF 13,254,522.
2) The additional amortisation of tangible and intangible assets that are capitalised using the purchase price allocation approach is recognised separately.

2008	Investment Banking CHF '000	Asset Management CHF '000	Private Banking CHF '000	Corporate Center CHF '000	Total CHF '000
Operating income	–28,896	73,584 [1)]	3,812	3,536	52,036
Administrative expense	–20,176	–26,366	–6,416	–5,270	–58,228
Gross operating profit	**–49,072**	**47,218**	**–2,604**	**–1,734**	**–6,192**
Depreciation and amortisation	–4	–1,262	–88	0	–1,354
Valuation adjustments, provisions and losses	0	0	0	–155	–155
Segment result before amortisation	**–49,076**	**45,956**	**–2,692**	**–1,889**	**–7,701**
Amortisation of tangible and intangible assets (PPA) [2)]	–1,000	0	–415	0	–1,415
Segment result after amortisation	**–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**	**1,698,399**	**1,936,908**	**0**	**4,321,965**
Number of employees at 31 December 2008	**53**	**78**	**110**	**15**	**256**

1) Income from associated companies is included in full in the segment result before taxes for the Asset Management segment and is CHF 41,467,832.
2) The additional amortisation of tangible and intangible assets that are capitalised using the purchase price allocation approach is recognised separately.

40. Secondary Segment Reporting

	31.12.2009			31.12.2008		
	Switzerland CHF '000	Other countries CHF '000	Total CHF '000	Switzerland CHF '000	Other countries CHF '000	Total CHF '000
Operating income	116,625	46,125	162,750	52,259	–223	52,036
Assets	1,366,438	1,557,007	2,923,445	369,536	1,131,631	1,501,167
Investments	819	92,398	93,217	721	153,067	153,788

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

41. 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.

42. 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 measurement 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	31.12.2009	Quoted market prices	Measurement method based on market data	31.12.2008
	CHF	CHF	CHF	CHF	CHF	CHF
Financial assets – trading book						
Trading portfolio assets	1,120,169,532	11,563,564	1,131,733,096	70,072,286	2,531,153	72,603,439
of which listed	1,120,169,532	0	1,120,169,532	44,297,690	0	44,297,690
Positive replacement values	0	7,690,245	7,690,245	1,602,519	475,802	2,078,321
Other financial assets at fair value	973,595	0	973,595	656,005	0	656,005
Financial liabilities – trading book						
Trading portfolio liabilities	0	0	0	0	0	0
of which listed	0	0	0	0	0	0
Negative replacement values	324,395	5,305,783	5,630,178	2,045,820	4,583,192	6,629,012
Other financial liabilities at fair value	0	0	0	0	0	0
Financial assets – banking book						
Financial assets held to maturity	8,905,624	10,610,081	19,515,705	0	0	0
Financial assets available for sale [1]	13,185,220	50,471,564	63,656,784	40,914,833	0	40,914,833
Loans and receivables	955,549,078	0	955,549,078	1,007,031,903	0	1,007,031,903

1) These are mainly investment funds for which prices are regularly published, but for which there is not an active market.

In both reporting periods no income was recognised from estimates of the fair value due to valuation methods which are not based on market data. Also, no income was recognised from fluctuations in fair value due to a change in own credit risk.

43. Major 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 major companies:

Company name	Registered office	Purpose	Currency	Share capital/ Stock capital	31.12.2009 Share of capital	31.12.2009 Share of votes	31.12.2008 Share of capital and votes
Valartis Bank AG	Zurich, CH	Bank	CHF	20,000,000	100%	100%	100%
Valartis Asset Management S.A.	Geneva, CH	Investment Advisor	CHF	1,896,210	100%	100%	100%
Valartis Wealth Management S.A.	Geneva, CH	Asset Management	CHF	2,000,000	100%	100%	100%
Valartis S.A.	Baar, CH	Holding Company	CHF	100,000	100%	100%	100%
Valaxis Asset Management S.A.	Geneva, CH	Asset Management	CHF	200,000	100%	100%	100%
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	50,000	100%	100%	100%
Eastern Property Management Ltd.	Tortola, BVI	Investment Advisor	USD	50,000	100%	100%	100%
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,500	100%	100%	100%
Valartis Fund Advisory S.A.	Luxembourg, L	Investment Advisor	EUR	91,166	100%	100%	100%
Valartis Bank (Liechtenstein) AG	Bendern, FL	Bank	CHF	20,000,000 [1]	72.47%	88.97%	0%
Valartis Europe S.A.	Vienna, A	Investment Advisor	EUR	1,000,000	100%	100%	100%
Darsi Investment Ltd.	Tortola, BVI	Financial Company	EUR	7,000,000	100%	100%	100%
SCCA Finance Ltd. [2]	Tortola, BVI	Financial Company	EUR	25,971,131	73.86%	73.86%	55.5%
Société des Centres Commerciaux Algérie SPA [3]	Algiers, DZ	Trading Company	DZD	172,326,000	73.86%	73.86%	55.5%
ENR Russia Invest S.A.	Geneva, CH	Financial Company	CHF	32,790,585	55.38%	55.38%	50.06%
Valartis (Austria) GmbH	Vienna, A	Financial Company	EUR	1,000,000	100%	100%	100%
Valartis (Wien) GmbH	Vienna, A	Financial Company	EUR	100,000	100%	100%	100%
Valartis Bank (Austria) AG	Vienna, A	Bank	EUR	6,570,000	100%	100%	100%
Valartis Asset Management (Austria) Kapitalanlagegesellschaft mbH	Vienna, A	Investment Advisor	EUR	2,500,000	100%	100%	100%

1) Of which CHF 6.4 million participation capital
2) Capital increase of EUR 25,921,131
3) Capital increase of DZD 72,326,000

44. Assets under Management

	31.12.2009 CHF '000	31.12.2008 CHF '000
Assets in self-managed funds	278,749	917,547
Assets with managment mandates	1,229,214	516,223
Other client assets	3,928,607	1,939,762
Total assets under management [1]	**5,436,570**	**3,373,532**
of which double counts	–52,660	–40,783
Net new asset inflow (outflow) [2]	1,761,408	136,947
Custody assets	2,962	0
Assets in leveraged funds [3]	938,604	948,433
Total assets under management (incl. leveraged funds and custody assets)	**6,378,136**	**4,321,965**

1) According to FINMA's accounting rules.
2) Net new asset inflow (outflow) includes all deposits and withdrawals plus inward and outward 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 client assets of Valartis Bank (Liechtenstein) AG of CHF 1.46 billion.
3) Leveraged funds that exceed the internal gross profitability criteria.

45. Events After the Balance Sheet Date

There were no events after the balance sheet date that had a material effect on the consolidated financial statements.

Auditor's Report on the Consolidated Financial Statements

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To the General Meeting of

Valartis Group AG, Baar

Zurich, 30 March 2010

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Valartis Group AG, which comprise the balance sheet, income statement, changes in equity capital, cash flow statement and notes (pages 53 to 112), for the year ended 31 December 2009.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation 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 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 as well as with 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 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 2009 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.

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 that 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

Patrick Schwaller
Licensed audit expert
(Auditor in charge)

Cataldo Castagna
Licensed audit expert

Contents

Valartis Group AG
Financial Statements 2009

Income Statement

Income

	1.1.–31.12.2009 CHF	1.1.–31.12.2008 CHF
Securities income	9,227,708	–2,368,430
Interest and dividend income	1,129,331	19,348,864
Commission income	0	0
Total income	**10,357,039**	**16,980,434**

Expenses

Office and business expense	–2,144,383	–716,111
Personnel expense	–123,992	–100,000
Interest expense	–6,838,576	–1,678,811
Commission expense	–691,213	–65,786
Extraordinary expense	–46,693	0
Impairments	0	–203,888
Taxes	–35,591	–4,337
Total expense	**–9,880,448**	**–2,768,933**
Net profit	**476,591**	**14,211,501**

Statement of Financial Position

Assets

	Note	31.12.2009 CHF	31.12.2008 CHF
Current assets			
Due from banks		171,942	30,511
Due from clients		0	0
Due from Group companies		12,976,376	75,760,127
Securities in the trading portfolio		67,630,447	584,842
Accrued and deferred assets		418,396	114,857
Total current assets		**81,197,161**	76,490,337
Fixed assets			
Participating interests	3	299,188,832	204,370,819
Total fixed assets		**299,188,832**	**204,370,819**
Total assets		**380,385,993**	**280,861,156**

Liabilities and shareholders' equity

	Note	31.12.2009 CHF	31.12.2008 CHF
Liabilities			
Due to banks		73,757,351	74,709,154
Due to clients		3,000,000	3,700,003
Due to Group companies		249,303,003	147,160,546
Accrued and deferred liabilities		1,328,833	685,241
Other liabilities		414,003	0
Total liabilities		**327,803,190**	226,254,944
Shareholders' equity			
Share capital	4	5,000,000	5,000,000
General statutory reserve		1,000,000	1,000,000
Reserve for treasury shares	6	12,192,261	3,187,944
Free reserve		22,136,450	31,140,767
Retained earnings			
Profit brought forward from previous year		11,777,501	66,000
Net profit		476,591	14,211,501
Total shareholders' equity		**52,582,803**	**54,606,212**
Total liabilities and shareholders' equity		**380,385,993**	**280,861,156**

Notes

1. Guarantees in Favour of Third Parties

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. Encumbrance of Assets to Secure Own liabilities

	31.12.2009 CHF	31.12.2008 CHF
Fair value of loaned securities in securities lending business	16,873,395	0

3. Major Equity Participations

Company name	Registered office	Purpose	Cur-rency	Share capital CHF	31.12.2009 Share of capital	31.12.2009 Share of votes	31.12.2008 Share of capital and votes
Valartis Bank AG	Zurich, CH	Bank	CHF	20,000,000	100%	100%	100%
Valartis Asset Management S.A.	Geneva, CH	Investment Advisor	CHF	1,896,210	100%	100%	100%
Valartis Wealth Management S.A.	Geneva, CH	Asset Management	CHF	2,000,000	100%	100%	100%
Valartis S.A.	Baar, CH	Holding Company	CHF	100,000	100%	100%	100%
Valaxis Asset Management S.A.	Geneva, CH	Asset Management	CHF	200,000	100%	100%	100%
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	50,000	100%	100%	100%
Eastern Property Management Ltd.	Tortola, BVI	Investment Advisor	USD	50,000	100%	100%	100%
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,500	100%	100%	100%
Valartis Fund Advisory S.A.	Luxembourg, L	Investment Advisor	EUR	91,166	100%	100%	100%
Valartis (Wien) GmbH	Vienna, A	Financial Company	EUR	100,000	100%	100%	100%
Valarits Bank (Liechtenstein) AG	Bendern, FL	Bank	CHF	20,000,000[1)]	72.47%	88.97%	0%

1) of which CHF 6.4 million participation capital

4. Share Capital

	31.12.2009	31.12.2008
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

5. Conditional Capital

	31.12.2009	31.12.2008
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 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 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.

6. Treasury Shares

	31.12.2009	31.12.2008
Number of shares in Valartis Bank AG's trading portfolio	0	54,212
Number of shares in Valartis Group AG's trading portfolio	348,170	20,770
Number of shares in the Valartis Group Foundation's trading portfolio	100,000	0
Reserve for treasury shares (CHF) 1)	12,192,261	3,187,944

1) In 2009, 480,313 shares were purchased by Valartis Bank AG at CHF 20.49, and 107,125 shares were sold at CHF 26.47 (average prices).

7. Shareholder Structure

	31.12.2009 in %	31.12.2008 in %
MCG Holding S.A., Baar ZG	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, Zurich, Pierre Michel Houmard, Geneva, and Tudor Global Trading LLC, Greenwich, USA. The following are considered qualified investors: a) Gustav Stenbolt, who holds 72.6% of the voting rights (63.8% of the share capital) of MCG Holding S.A. (partly held through Tidesea Ltd, Gibraltar), b) Philipp LeibundGut, who holds 14.8% of the voting rights (19.4% of the share capital) of MCG Holding S.A. and c) Tudor Global Trading LLC, Greenwich, USA, which holds 12.2% of the voting rights (16.2% of the share capital) of MCG Holding S.A.

8. Remuneration of the Members of the Board of Directors

See the 2009 Valartis Group Annual Report for details of remuneration.

9. Options

See the 2009 Valartis Group Annual Report for details of options.

10. Risk Assessment

At its meeting of 8 September 2009, 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 that had a material effect on the financial statements of Valartis Group AG.

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 4 May 2010:

	2009 CHF	2008 CHF
Profit brought forward from previous year	11,777,501	66,000
Net profit	476,591	14,211,501
Retained earnings	12,254,092	14,277,501
Allocations from/to free reserves	0	0
Subtotal	12,254,092	14,277,501
Dividend on capital entitled to dividend payments	–2,500,000	–2,500,000
Profit to be carried forward	**9,754,092**	**11,777,501**
Dividend per bearer share entitled to dividend payments	0.50	0.50

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To the General Meeting of

Valartis Group AG, Baar

Zurich, 30 March 2010

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Valartis Group AG, which comprise the balance sheet, income statement and notes (pages 117 to 123), for the year ended 31 December 2009.

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

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

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

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

Report on Other Legal Requirements

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

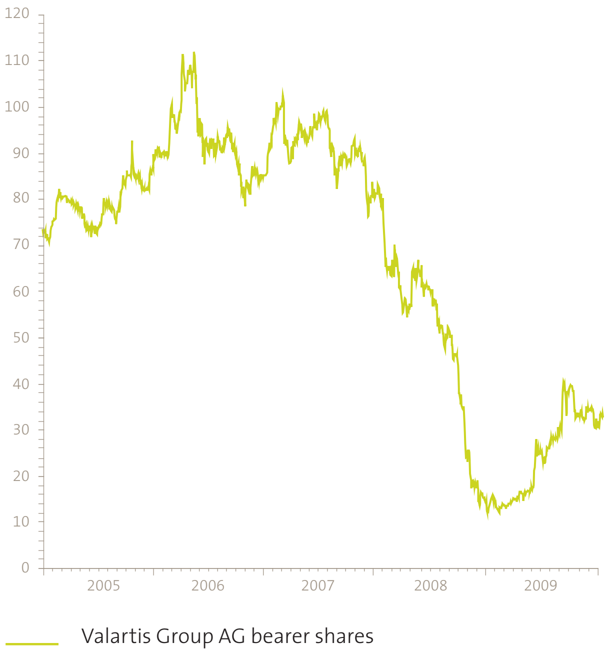
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Patrick Schwaller Licensed audit expert (Auditor in charge)	Cataldo Castagna Licensed audit expert

Valartis Group AG Bearer Share

Performance of the Valartis Group AG bearer share
1 January 2005 to 31 December 2009, in CHF



Source: Bloomberg

Since the company's listing on 26 August 1991, the total performance of Valartis Group AG bearer shares has averaged 5.05% p.a.

Closing price of VLRT on 31.12.2008	14.45
Closing price of VLRT on 31.12.2009	32.50
Annual high on 24.08.2009	41.50
Annual low on 28.01.2009	11.20
Dividend per share paid for financial year 2008	0.50
Proposed dividend per share for financial year 2009	0.50
Dividend yield (closing price on 31.12.2009)	1.5%
Reuters symbol	VLRT.S
Bloomberg symbol	VLRT SW

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