Annual Report 2013

Only he who knows his destination

FINDS THE WAY

valartisgroup+

2013 AT A GLANCE

The consolidated financial statements for 2013 for Valartis Group, in accordance with International Financial Reporting Standards (IFRS), show a consolidated profit of CHF 0.4 m for the Group (previous year: CHF 10.2 m). It was affected mainly by nonrecurring, exceptional factors resulting from the planned sale or merger, respectively of Valartis Bank AG, Switzerland and a significant unforeseeable effect of value adjustments on real estate projects by Eastern Property Holdings Ltd. In accordance with International Financial Reporting Standards (IFRS), net profit from continued operations (IFRS 5) at CHF 13.2 m was quite satisfactory also due to the sale of a portion of the bond portfolio (previous year, on a comparable basis: CHF 7.6 m).

After having established Private Banking operations, Valartis Group focused its business activities in 2011 and 2012 on asset management, within the framework of the strategy embarked on in 2008 and after making two divestments. In 2012 and 2013, Valartis Group's sustained strategic focus was center stage. The Board of Directors of Valartis Group made consequent and decisive moves over time through strategic decisions to realign the business model and to adjust it to the altered framework and market conditions.

Consolidated profit for continued and discontinued operations: CHF 0.4 m (2012: CHF 10.2 m)

Continued operations
– Net operating profit from continued operations (IFRS 5): CHF 13.2 m (previous year, on a comparative basis: CHF 7.6 m)
– Net new money: CHF 438 m (previous year: CHF 850 m)
– Client assets: CHF 6.0 bn. (previous year: CHF 5.5 bn.)
– Operating profit: CHF 73.7 m (previous year: CHF 70.7 m)
– Cost/Income Ratio 71 per cent (previous year: 71 per cent)
– Gross profit: CHF 21.7 m (previous year: CHF 20.3 m)
– Core Capital Quota: 15.2 per cent (previous year: 13.3 per cent)

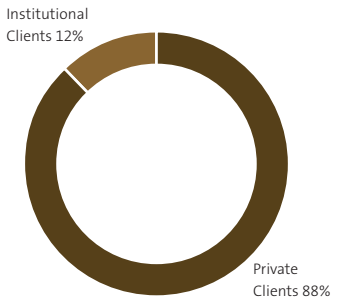
The English Valartis Group Annual Report is a translation of the German original. Only the German original is legally binding.

KEY FIGURES AT A GLANCE

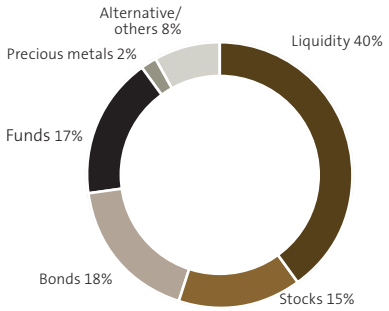
Key Figures – 2012 and 2013 shown as continued and discontinued operations

in CHF million	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Total operating income	**162.7**	**96.8**	**63.3**	**70.7**	**73.7**
Income from interest and dividend	27.7	49.6	41.2	18.3	17.5
Income from commission and service fee	41.9	46.9	52.2	41.5	47.1
Income from trading book	77.4	-6.9	-20.3	6.3	-3.6
Other ordinary income	15.7	7.2	-9.8	4.6	12.7
Administrative expense	-71.5	-87.6	-81.7	-50.4	-52.0
Personnel expense	-45.8	-55.7	-50.4	-33.0	-34.1
General expense	-25.7	-31.9	-31.3	-17.4	-17.9
Gross income/(loss)	91.2	9.2	-18.4	20.3	21.7
Depreciation, valuation adjustments and provisions	-13.4	-16.7	-17.0	-15.9	-9.1
Income taxes	-11.2	6.0	1.4	3.2	0.6
Net profit from concontinued operations	66.6	-1.5	-34.0	7.6	13.2
Net profit from disconcontinued operations		12.2	14.5	2.6	-12.8
Net profit	**66.6**	**10.7**	**-19.5**	**10.2**	**0.4**
attributable to shareholders of Valartis Group AG	62.7	10.9	-14.8	6.7	-2.5
attributable to non controlling interests	3.9	-0.2	-4.7	3.5	2.9
Total assets	2,924	2,437	2,631	3,175	3,027
Total liabilities	2,567	2,100	2,322	2,859	2,707
Total shareholders' equity (including non-controlling interests)	357	337	309	316	319
Return on shareholders' equity	23.3%	3.0%	5.8%	3.3%	0.1%
BIS Tier-I Ratio	8.9%	10.5%	10.9%	13.3%	15.2%
Total client assets	6,378	6,277	6,835	7,798	7,957
Continued operations				5,528	6,034
Discontinued operations				2,270	1,923
Net New Money	1,761	220	862	929	242
Continued operations				850	438
Discontinued operations				79	-196
Commission margin, in basis points	78.3	74.1	79.6	80.4	81.5
Employees, as full-time equivalents (FTE)	249	380	297	299	285
Continued operations				220	217
Discontinued operations				79	68
Cost / Income Ratio	44%	90%	129%	71%	71%
Closing price of VLRT bearer shares, in CHF	32.5	26.00	17.25	20.00	17.70
Dividend per share, in CHF	0.50	0.50	0.00	1.00	0.00
Dividend yield	1.5%	1.9%	n/a	5.0%	n/a

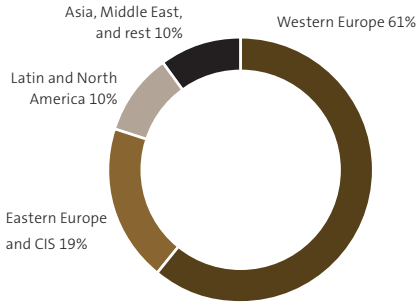
Client assets by business segment *



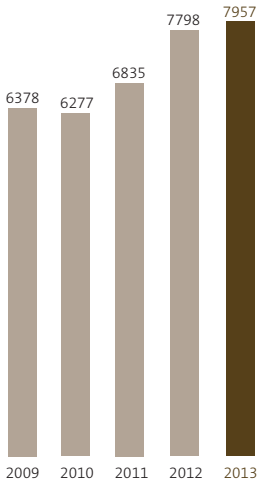
Client assets by asset class *



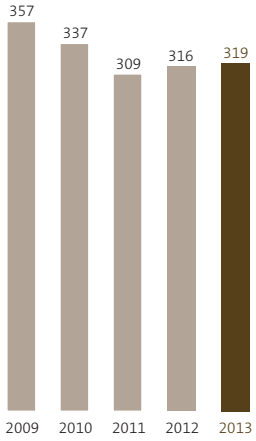
Client assets by region *



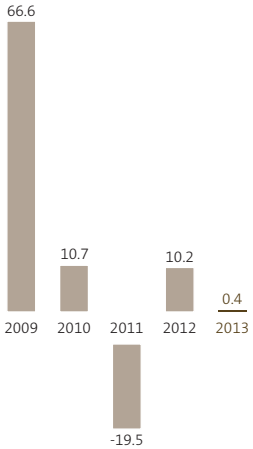
Total client assets, in CHF million *



Shareholders' equity, in CHF million *



Net profit, in CHF million *



* including Valartis Bank AG, Switzerland

When the going gets difficult

ACTIVELY ADDRESS THE ISSUES

The photographer Res Camenzind has captured the fascinating and unique landscapes of the Swiss mountains for us.

Glattalp with the Höch Turm peak, canton of Schwyz, cover
Glattalp, slope of the Rot Nossen, canton of Schwyz, p. 5
Lake on the Glattalp with the Höch Turm peak, p. 12
Glacial stream on the Jöri glacier, canton of Graubünden, p. 14/15
The Jöri lakes, part of the Flüela Group, canton of Graubünden, p. 16/17
The Flüelapass with the Schwarzhorn peak (far right), canton of Graubünden, p. 32/33
View from the Jöriflüelafurgga on to the Sentisch Horn peak, canton of Graubünden, p. 34
Glattalp, with the Läckistock peak, canton of Schwyz, p. 53
Glattalp, with the Gross Chilchberg and Höch Turm peaks (far right), canton of Schwyz, p. 54/55
Slope of the Alpler peak, Bisis valley, cantons of Schwyz and Uri, p. 56/57
View from the Winterlücke gap on to the Piz Linard peak, canton of Graubünden, p. 180

CONTENTS

LETTER TO SHAREHOLDERS

Dear Shareholders, Dear Ladies and Gentlemen

Strategic decisions for a new course

At Valartis, 2013 was a year for setting a new course. Along with continuing to concentrate on servicing the strategic core markets of all our business units, we also made important adjustments to our business model and service offering, and slimmed down and optimised our internal structures and processes. This was done with an eye to the future, in order to achieve a sustainable, more rigorous profit orientation for the Group. If we look back, we can recall how we built up our private banking business between 2008 and 2010, concentrated on our strengths via tactical divestments in 2011 and 2012 and focused all our services on private banking in 2012 and 2013 – a period during which we also implemented a comprehensive cost savings programme which has resulted in a stable cost-income ratio of 71 per cent as at 31 December 2013. With these measures we can say that the proactive transformation process set in motion by Valartis Group has now created the basis for a successful future for the Group.

In the course of the strategic realignment of the business model and the streamlining of structures, the Board of Directors decided on 26 August 2013 to divest Valartis Bank AG, Switzerland. Despite a realignment of the front organisation, by the first half of 2013 it had become apparent that Valartis Bank AG, Switzerland, would not be able to improve its client acquisition capabilities to the extent which had been expected, and that the bank was therefore not in a position to achieve the necessary critical mass in the foreseeable future. The Swiss Bank's costs, together with costs stemming from measures from increasing regulatory changes, steadily accelerated and are squeezing margins even further and, thus, having significantly raised the level of the necessary critical mass for a Swiss Bank even higher.

The Board of Directors of Valartis Group and the Group Executive Management currently expect, based on the decision made and the corresponding action taken in 2013 to divest Valartis Bank AG, Switzerland, to achieve a favourable solution on behalf of the shareholders, clients, and personnel for the wholly owned subsidiary during the course of 2014.

Consolidated financial statements 2013 for Valartis Group

Against this backdrop, the consolidated financial statements for 2013 for Valartis Group, in accordance with International Financial Reporting Standards (IFRS), show a consolidated profit of CHF 0.4 m for the Group (previous year: CHF 10.2 m) taking into account nonrecurring, exceptional factors resulting from the planned sale or merger, respectively of Valartis Bank AG, Switzerland, and a significant unforeseeable effect of value adjustments on real estate projects by Eastern Property Holdings Ltd.

In accordance with International Financial Reporting Standards (IFRS), net operating profit from continued operations (IFRS 5) was CHF 13.2 m (previous year, on a comparative basis: CHF 7.6 m) also due to the sale of a portion of the bond portfolio and despite the value adjustment on the EPH Escrow Accounts.

Despite the challenging market environment, Valartis Group's continued operations achieved net new money inflows amounting to CHF 438 m (previous year: CHF 850 m), and client assets rose from CHF 5.5 bn to CHF 6.0 bn. Valartis Bank (Liechtenstein) AG made a major contribution to this result.

Operating profit was up 4.2 percent at CHF 73.7 m (previous year: CHF 70.7 m). Despite implementation costs arising from new regulations, costs rose only slightly by roughly 3 per cent to CHF 52.0 m (previous year: CHF 50.4 m). The cost/income ratio is 71 per cent (previous year: 71 per cent).

Gross profit increased by 7.1 per cent to CHF 21.7 m (previous year: CHF 20.3 m).

Urs Maurer-Lambrou, Chairman of the Board of Directors

Continued solid capital basis

As it did for other Swiss-based banks, the increased capital requirements introduced by the Swiss Financial Market Supervisory Authority (FINMA) at the end of 2013 required Valartis Group to make adjustments. Nevertheless, the core capital ratio as at 31 December 2013 was 15.2 per cent (2012: 13.3 per cent).

Stability through change

As part of the strategy launched in 2008, Valartis Group has focused on the successful development and expansion of its private banking and wealth management businesses. In 2011 and 2012 it increased its focus on wealth management through the divestment of two business units, while also concentrating in 2012 and 2013 on the implementation of strategic cost reduction measures.

In the course of its 2013 strategic realignment, Valartis Group is re-affirming its focus on the future with a newly streamlined group management organisation. As of 9 April 2014, the transformation phase during the planned divestment of the Swiss Bank, the Group Executive Management will be as follows: Gustav Stenbolt, Group CEO, Vincenzo Di Pierri, Deputy Group CEO and CEO of Valartis Bank AG, Switzerland, and George M. Isliker, Group CFO and CRO. Following the successful spin-off of Valartis Bank AG from Valartis Group during the course of 2014, Valartis Group will then align its group executive organisation in accordance to the new framework requirements.

Valartis Group continuously re-evaluates its business model, structures and processes with an eye to finding promising avenues for future development and ensuring sustainable profitability. In 2013, this re-evaluation led to the decision to part with non-profitable units. In 2014 the focus will be on securing the long-term future of the Group by adapting the current business model as well as product and service offering to the new realities, and strengthening and expanding the activities of the continued private banks activities along with the asset management as well as real estate management and private equity businesses.

Gustav Stenbolt, Group Chief Executive Officer

Outlook

Our Group will continue to face major economic and regulatory challenges in 2014. As an internationally active financial group, we will also continue to face challenges in terms of the adequate and effective allocation of resources, particularly considering growing regulatory pressure which necessitates the implementation of countless organisational measures.

Net profit from continued operations was CHF 13.2 million. This result was on the one hand influenced by extraordinary items arising out of our business activities. On the other hand, the result can to a great degree be attributed to IFRS requirements, the correct application of which had a very positive effect on the results of continued operations and a strongly negative one on discontinued operations in 2013.

Taken together, continued and discontinued operations resulted in a net profit of CHF 0.4 million. From today's perspective, we believe that in 2015 and 2016 Valartis Group will once again be in a position to earn a substantial profit from its operating business, provided that the organisational transformation will have been successfully implemented and the financial industry recovers and stabilises over the next few years.

For us as a financial group, the decisive factor will be how quickly, effectively and successfully we can implement the strategic measures we have defined and anchor them in the organisation. We are convinced these measures will have noticeable effects in 2014 and they will above all be responsible for significant and sustainable positive results over the two following years. With the ongoing adaptation of its business model we are confident that Valartis Group will continue to be successful in the future.

Thank you

We would like to take this opportunity to express our thanks, deep admiration and great respect to all the employees of Valartis Group for their extraordinary dedication, strong commitment and tireless efforts on behalf of the Group's goals.

We would also like to express our heartfelt thanks to Prof. Dr. Erwin W. Heri for his ten years of commitment as a member and Chairman of the Board of Directors of Valartis Group.

Finally, we would like to thank you, dear clients and shareholders of the Valartis Group AG, for your loyalty and trust. We will continue working with resolution and dedication to achieve sustainable business success for your company and for the benefit of all our stakeholders.

Baar, canton of Zug, 7 April 2014

Urs Maurer-Lambrou
Chairman of the Board of Directors

Gustav Stenbolt
Group Chief
Executive Officer

VALARTIS GROUP

Tomorrow‘s challenges

ANTICIPATE AND PLAN STRATEGICALLY

THE VALARTIS GROUP

Internationally active Swiss financial group

2013, Valartis Group is a financial group comprised of three private banks in Switzerland, Austria and Liechtenstein and engaged in activities in asset management and private equity. The parent company of the Group is Valartis Group AG with registered offices in Baar, in the canton of Zug, Switzerland.

The bearer shares of Valartis Group AG are listed on the SIX Swiss Exchange (ISIN CH0001840450, see also page 189). Valartis Group AG holds direct or indirect stakes in several fully consolidated companies (see also note 46). As a Swiss-based banking and finance group Valartis Group AG is subject to consolidated supervision by the Swiss Financial Market Supervisory Authority (FINMA).

The largest shareholder in Valartis Group AG is MCG Holding S.A. in Baar, in the canton of Zug, Switzerland, which held 50.2 per cent of capital and of voting rights as at 31 December 2013.

Today, the Group with its Private Clients and Institutional Clients as well as via its asset management and private equity activities is present in Zurich, Geneva, Lugano (Switzerland), Vienna (Austria), Bendern-Gamprin (Principality of Liechtenstein), Luxembourg and Moscow.

A decisive move to realign

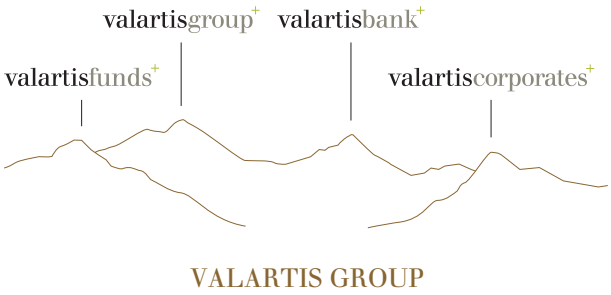
In the course of the strategic realignment of the business model and the streamlining of structures, on 26 August 2013, the Board of Directors of Valartis Group decided to divest Valartis Bank AG, Switzerland; this was communicated to all stakeholders on the following day. During the first half-year 2013, it had become apparent that the acquisition capacity of Valartis Bank AG, Switzerland, could not be increased at the planned rate, despite the newly aligned front office organisation, and that the Bank would not attain the appropriate critical mass within the foreseen timeframe. The Swiss Bank's costs, together with costs stemming from measures from increasing regulatory changes, also accelerated in 2014, squeezing margins even further and, thus, significantly raising the level of the necessary critical mass for a Swiss Bank.

The Board of Directors of Valartis Group is, and remains, committed to the pursuit of the most favorable solution on behalf of shareholders, clients, and personnel and, based on current information, expects to reach the intended sale or merger, respectively during the course of 2014.

As per IFRS 5 a distinction will therefore be made in this report between discontinued and continued operations. The activities of Valartis Bank AG, Switzerland, will be classified under discontinued operations. In this way, and in line with IFRS 5 basic principles, it is possible to transparently present and evaluate the future revenue and development prospects of Valartis Group.

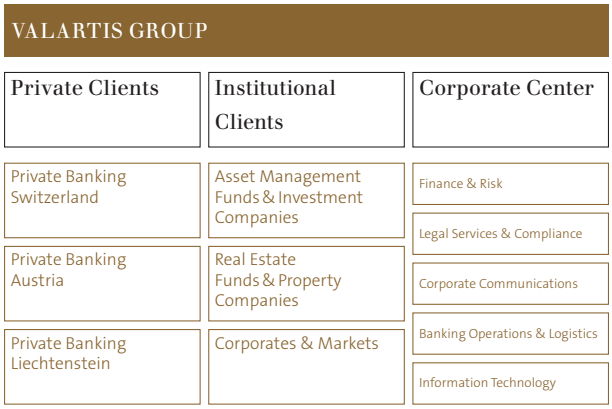
As at 31 December 2013, the ca. 220 employees of the continuing operations managed assets in the amount of CHF 6.0 billion (CHF 5.5 billion a year earlier).

Valartis Group is an internationally active financial group. Its strategy is focused on wealth management for wealthy private clients as well as asset management and related services for institutional investors. In addition to traditional wealth management and investment advisory, the Group develops, manages and markets innovative investment products and provides additional specialised services in the areas of asset management and private equity.



Attractive business model

The experts of Valartis Group offer sustainable added value to a sophisticated, wealthy and international private banking clientele as well as next-generation institutional investors. They position themselves as "financial coaches", providing their clients long-term, prudent and personalised support. Along with traditional wealth management and investment advisory services, Valartis Group's financial experts develop bespoke private banking solutions as well as special, innovative investment products in the following asset classes: equities, fixed income, alternative investments and real estate. Additionally, Valartis Group offers entrepreneurs its know-how in the areas of asset management and private equity. Valartis's experts are known for their comprehensive expertise, discretion, individual service, and high quality advice as well as a profound knowledge and understanding of international markets and cultures.



* Based on current information, the Board of Directors expects to reach the intended sale or merger, respectively of Valartis Bank AG, Switzerland, during the course of 2014.

Agile organisation

Valartis Group is an agile organisation with a flat hierarchy and fast decision-making processes, allowing for efficient, flexible and needs-oriented solutions in all areas of its business. With its innovative product and service offering, its financial experts, and its experienced, international client advisor teams, the Group is well-positioned to serve international private clients and next-generation institutional investors.

Segments

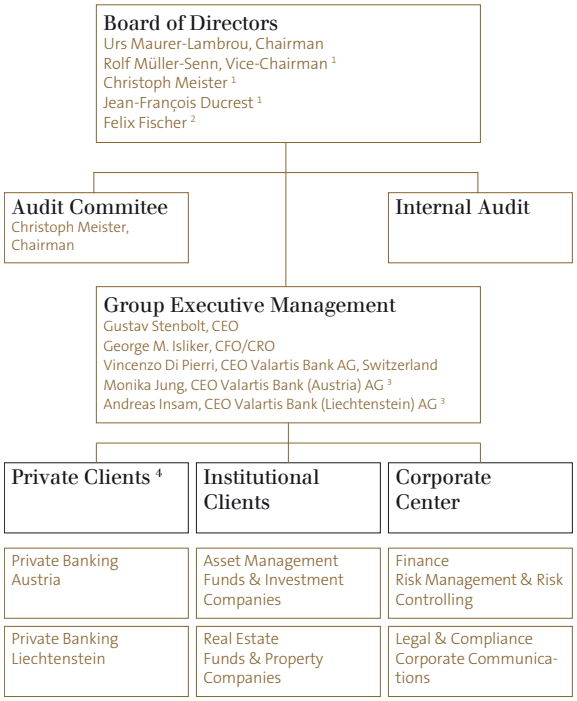
Operationally, the activities of Valartis Group are divided into two main client segments – Private Clients and Institutional Clients – while all activities which support the front are assigned to the Corporate Center.

While the Private Clients segment encompasses the continued operations of the two Valartis banks in Austria and Liechtenstein, the Institutional Clients segment focuses on asset management activities.

The Corporate Center acts as an internal service centre for Valartis Group's operational business units. It provides services in the areas of risk management and risk controlling, legal and compliance, finance and controlling as well as corporate communications and marketing. All consolidation items as well as income and expenses with no direct link to the operative business segments are assigned to the Corporate Center as well (for more information, please see the detailed segment reports page 40 ff).

The Group businesses as well as the most important participations belonging to the Valartis Group's scope of consolidation are shown in Note 44 of the Notes to the Consolidated Financial Statements.

Organization Chart



1 Member of Audit Committee
2 until Annual Shareholders' Meeting 2014
3 until 9 April 2014 (date of media release)
4 Activities of Private Banking Switzerland 2014 are discontinued operations according to IFRS 5

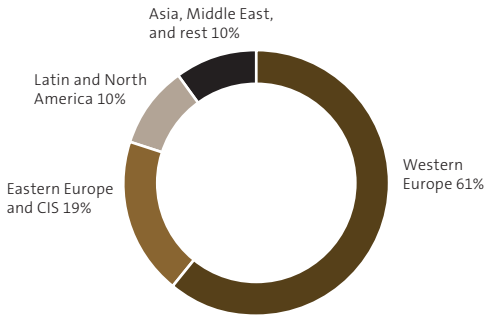
CLIENTS AND MARKETS

The clients of Valartis Group

Valartis Group focuses on wealthy private clients as well as selected institutional investors and independent external wealth managers (for the latter of whom the Group also offers a comprehensive range of products and services). The Group seeks sustainable, trusting relationships with its clients in a spirit of partnership.

Valartis Group's clients include entrepreneurs, executives and people of independent means as well as their families. Along with high net worth individuals (HNWI), in their home markets and neighbouring countries the Valartis banks also cater to the so-called Affluent Clients segment, comprised of individuals with liquid investable assets of at least half a million Swiss francs (see Country Overview on the right side). The proportion of clients from emerging markets has risen again. These clients tend to be very entrepreneurial and are on average younger (30 to 55 years old) than the "classical" private banking clients in Valartis's home markets and neighbouring countries.

Client assets by region



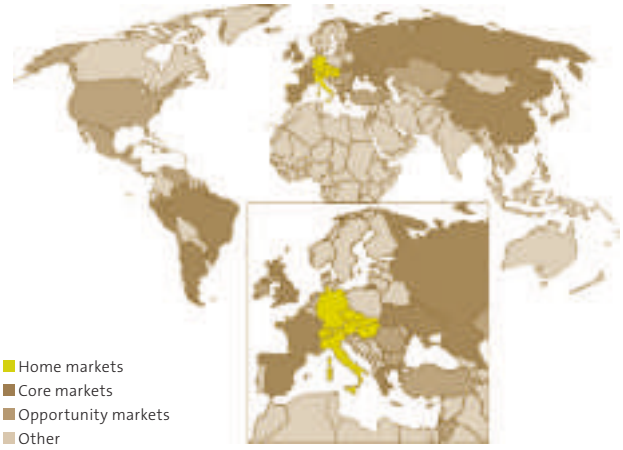
Core and opportunity markets

The core markets of Valartis Group consist of the respective home markets – locations of the banks and their neighbouring countries – as well as in particular Middle and Eastern Europe/CIS and parts of North and Latin America along with select countries in Asia. Its opportunity markets include the Near East and Greece. For historical and regulatory reasons, the Valartis banks each have differing priorities with respect to the actively covered core markets and the more passively addressed opportunity markets (see also Strategic Goals and Objectives on page 23 f).

Highly demanding clients

Clients of the Valartis banks generally hold second or third accounts. On the one hand these accounts serve clients as a means of consolidating their life savings with an eye to their own retirement and the financial security of their families; on the other hand, they serve as repositories for profits from business activities to be used in further developing their ventures. Valartis Group's clients therefore attach considerable importance to personalised, individual interaction with skilled client advisors who possess in-depth knowledge of their needs as entrepreneurs and who – thanks to many years of international experience and expertise – can be counted on to provide professional and reliable advice and support.

Valartis Group's core and opportunity markets



It is important to Valartis Group's clients that their assets be invested in a manner commensurate with their appetite for risk. With 40 per cent in money markets and 18 per cent in bonds, the assets managed by Valartis Group reflect a risk profile geared towards stability and security (see also Client assets by asset class on page 36).

In-depth knowledge of local markets and cultures

When it comes to serving its markets and clients, Valartis Group can count on a skilled, highly trained and discrete team of client advisors in its respective countries and regions. The 105 client advisors in the Valartis banks enjoy the benefit of many years of advisory experience in international private banking and know the local markets, conditions and cultures well. They speak a total of 25 languages.

In addition, the Valartis banks can call on a comprehensive network of experienced external intermediaries to assist them in client acquisition and support. These intermediaries have excellent contacts as well as all the requisite licenses for establishing new client relationships.

PRODUCTS AND SERVICES

Valartis Group's "financial coaching" approach emphasises a personal, solutions-oriented client service. Transparency, reliability as well as risk-balanced, stability-minded investment of the assets entrusted to it are the cornerstones of the Group's client-oriented private banking philosophy.

Customised private banking solutions

Thanks to a global network of external specialists who cooperate closely with its internal financial experts, the Valartis private banking teams are able to offer their international clientele a full range of bespoke and individually tailored private banking solutions. Clients benefit from Valartis Group's professional organisation, broad and deep expertise, and ability to make decisions quickly, which allows for a rapid and flexible implementation of solutions – something larger institutions often cannot offer.

An investment strategy geared to stability and security

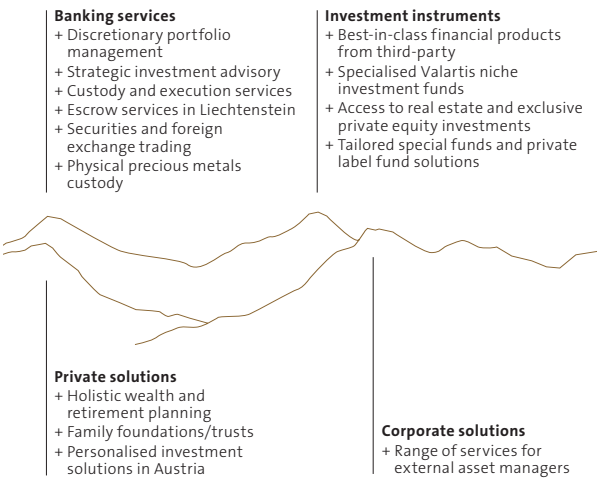
A systematic advisory process provides the basis for a comprehensive, holistic wealth advisory and planning service centred on detailed discussions with a personal client advisor in an atmosphere of trust. Each investment portfolio is designed according to the individual risk, return and liquidity needs of the client. The goal of these strategies, which are developed along with the client, are not just to achieve above-average returns, but also to ensure a portfolio with the desired stability and security characteristics.

The Valartis banks offer investment concepts appropriate to both entrepreneurial investors with a higher risk tolerance and investors who are more conservative and risk averse. Along with standard wealth management strategies such as "conservative", "balanced" or "dynamic", Valartis Group's portfolio managers are able to implement bespoke mandate solutions. These are based on the principle of diversification and employ carefully considered strategic and tactical asset allocations. Individual investments are made according to a value-based core/satellite approach. This means that assets are invested on a risk-adjusted basis in index-oriented core investments in traditional as well as alternative asset classes, with selective investments made in opportunities with a higher return potential.

Open architecture with best-in-class financial products

Valartis Group's wide palette of financial services encompasses traditional private banking services, classical wealth management, active and strategic investment advisory as well as an independent and transparent product offering and access to specialists in the broader disciplines of wealth structuring. In line with its best-in-class principles and under its open architecture approach, Valartis Group's investment specialists select the best available products and services in the global market for each individual client.

Products and Services



Specialised in-house investment products

Along with selecting best-in-class third-party products, Valartis Group's investment specialists use their expertise in identifying attractive investment opportunities to develop proprietary index-oriented core investment products as well as complementary niche investment instruments. Along with such award-winning niche equity funds as the Swiss small- and mid-cap oriented Swiss Active Alpha Fund and smaller retail funds in the areas of fixed income and alternative investments, these include specialised investment vehicles consisting of real estate and private equity portfolios in Germany and Russia. The in-house product offering for institutional and private clients is rounded off with one-stop-shop solutions for specialised securities funds as well as bespoke private label funds for investors with specific investment needs (more information on Valartis fund products can be found on pages 44 ff.).

STRATEGIC GOALS AND OBJECTIVES

In 2008, Valartis Group refocused its business on wealth management services for wealthy private clients and services for institutional investors. Over the subsequent three years, the Group built up and expanded its private banking business unit through targeted acquisitions. In 2011 and 2012 it further concentrated its energies on its primary focus by divesting non-private banking activities, a process which was streamlined during 2012 and 2013 through measures aimed at reducing costs.

CONTINUED STRATEGIC FOCUS

Despite a realignment of its front organisation, Valartis Bank AG, Switzerland, failed to improve its ability to acquire new business to the degree which had been expected, and it became apparent during 2013 that the bank would not achieve the necessary critical mass in the foreseeable future. Valartis Bank AG, Switzerland, is a 100 per cent subsidiary of Valartis Group AG with offices in Zurich, Geneva and Lugano. With its almost 70 employees the Swiss subsidiary manages only about a fifth of the client assets of Valartis Group, yet accounts for some 30 per cent of its costs. In order to achieve a sustainable, future-oriented cost-income basis for the Group as a whole, the decision was therefore taken to look for the best possible solution for shareholders, clients and employees. Based on current information, it is expected that the intended settlement is reached during the course of 2014.

Market and competitive environment

Valartis Group finds itself in an increasingly challenging competitive environment due to tightened regulatory requirements, a more difficult economic landscape as well as markedly higher expectations from an increasingly demanding clientele. At the same time, pressure on margins is rising, forcing small to mid-sized private banks such as the Valartis banks to re-evaluate their business models. Along with positioning themselves in attractive niches, the future for such financial institutions will increasingly include the search for cooperations or mergers, both internally and externally, in order to achieve effective economies of scale.

Increased regulatory demands

A marked tightening of the general political and regulatory framework is also strongly influencing private banking business models and causing pressure on the cost side. Today, lawmakers have an increasing say in the fundamental policies of banks, affecting how they interact with clients, deliver their products and services and relate to governments and other financial institutions.

An example: Increased capital requirements

The Swiss Financial Market Supervisory Authority (FINMA), which exercises consolidated banking supervision over Valartis Group AG, imposed stricter capital adequacy requirements on the Group in 2013, as it did for many banking institutions in the Swiss financial sector. The treatment of capital investments of minority shareholders in fully consolidated group companies is to be implemented earlier than required by Basel III in that the transitional provision set out in Art. 142 para. 1 of the Swiss Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO) is to be waived. Under these new capital adequacy requirements, in respect of capital investments of minority shareholders in fully consolidated group companies, the amount included in eligible capital cannot exceed the amount required for covering the proportional capital needs of the subsidiary, this taking effect for the first time as at 31 December 2013, and not as at 1 January 2019 as envisaged under Basel III. This clearly reduces the eligible capital.

In order to reduce Valartis Group's risk profile to a sufficient degree and prevent a potential violation of the more stringent capital adequacy requirements, parts of the bond portfolio classified as "held to maturity" were sold in 2013.

As at 31 December 2013, the core capital ratio was thus 15.2 per cent (2012: 13.3 per cent). Since Valartis Group does not include any hybrid capital in the eligible equity capital and does not net any assets or liabilities (balance sheet contraction) in accordance with IFRS, the regulatory capital is not "diluted" and can still be considered to be good. Further information on equity capital and risk developments can be found on page 77 ff.

OBJECTIVES AND MEASURES

The future of Valartis Group lies in the concentrated servicing of its strategic core markets, in the adaptation of its product and service offering to the needs of its international target client segment, as well as in revamping its business model and structures to enable a more rigorous focus on profitability while maintaining a healthy risk-return ratio. The business model is based on two business segments: Private Clients and Institutional Clients. Today, Valartis Group is active in the following locations: Zurich, Geneva, Lugano, Vienna, Liechtenstein, Luxembourg and Moscow. It combines a broad palette of traditional private banking services with specialised advisory and banking services in the areas of asset management and private equity as well as innovative investment products in the following asset classes: equities, fixed income, alternative investments and real estate. The core markets of Valartis Group are Middle and Eastern Europe, the East Greece and selected countries in North and Latin America as well as Asia. Responsibility for the individual markets resides with the respective locations and is coordinated via the Group.

Further focused growth in private banking

Valartis Group's mid-term goals remain unchanged. It seeks net new money inflows based on assets under management of 5 per cent per year on average, a cost-income ratio of between 65 and 70 per cent, and a core capital quota of 15 per cent. Along with ensuring critical mass in assets under management in its two banks, with a concurrent reduction of its cost basis, a key success factor for Valartis Group will be the development of new sources of revenue.

New sources of revenue

With the loss of the substantial interest income due to the successful disposal of the bond portfolio classed as "held to maturity", undertaken to prevent a potential violation of more stringent capital adequacy requirements, Valartis Group will, along with its Private Clients business segment, have to strengthen its Institutional Clients business. This entails not only developing products for the benefit of Private Clients, but also focusing its presence in the market and optimising the breadth of its service offering. In doing so the banks will however only pursue business activities with transparent and profitable risk-return prospects (see also Risk Management on page 74 ff.).

Lean organisational structure

Valartis is organised along segment and department lines, which in turn are assigned to the respective members of Group Executive Management. As part of its strategic orientation for the future, the Board of Directors has decided to pare down this leadership organisation. As of 9 April 2014, and for the duration of the transformation phase during the planned divestment of the Swiss Bank, the Group Executive Management will consist of Gustav Stenbolt, Group CEO, Vincenzo Di Pierri, Deputy Group CEO and CEO of Valartis Bank AG, Switzerland, and George M. Isliker, Group CFO & CRO. This leaner setup will help simplify processes and responsibilities for the future and increase efficiencies and profitability through a stronger Group-wide concentration of roles and responsibilities.

Targeted measures to control costs and raise revenues

The Group also intends to achieve its targeted increases in efficiency and profitability by continuing specific cost control and revenue enhancement programmes in all its operating businesses. In particular, the Group Executive Management is working actively to increase the Group's short-term flexibility despite rising regulatory demands and increased organisational complexity, as well as to make the business model more scalable. On the one hand, this is to be achieved through further improvements in the exploitation of synergy potential throughout the Group. On the other, the Group will continue to subject its cost centres to strict control and to increase the level of performance-based compensation for its front employees at the expense of smaller fixed base salaries. In doing so, Valartis Group will continue to adhere to its basic principle of a balanced approach to risk. The internal control system at the Group (ICS) is continuously being expanded and helps to efficiently control operational risks. (See also Risk Management on page 74 ff.)

Continued improvement in commission income

Alongside a strategic emphasis on client acquisition, Valartis Group strives to increase earnings volumes on an annual basis. To do so commission income must be increased in order to sustainably cover all operational costs over the medium term through commission and fee income.

Transparent "Make and Buy" strategy

The Valartis banks offer their private banking services at fees which conform to market norms. In providing its services Valartis Group is keen to ensure full transparency for its clients. For this reason the Group employs an "open platform" approach utilising "best-in-class" financial products from third parties which are selectively supplemented by competitive investment instruments developed in-house. The Group, however, consciously shuns the selection or recommendation of complex structured products which are difficult to understand. When it comes to providing private banking services that go beyond classic portfolio management, strategic investment advisory or related banking services – for example tax and retirement planning or financial planning for cross-border relocations – the Group employs a "buy" strategy through cooperation with selected external specialists.

Professional portfolio management processes provide the basis for an investment approach which is grounded in security and stability. Under this approach portfolios are constructed using a risk-adjusted combination of index-like core investments combined with theme-based satellite investments. In step with this core/satellite investment approach, over the last year Valartis Group's investment specialists have, alongside the development of specialised niche investment vehicles, begun developing related core funds products in-house. As opposed to Valartis Group's Swiss niche funds, the new products are primarily intended for distribution among the Valartis banks' private clients. That said, the Group adheres at all times to its principle of competitiveness and transparency in the selection of its products. More information on the Valartis funds products is available on pages 44 ff.

Focused marketing efforts

Valartis Group focuses its marketing efforts primarily on wealthy private clients. Along with the traditional private banking target group of High Net Worth Individuals (HNWI), in its home markets Valartis Group also provides services for affluent clients. These are wealthy clients with liquid assets of half a million Swiss francs and more. The Valartis banks have traditionally been very successful in this client segment, differentiating themselves in their home markets and neighbouring countries by offering affluent clients an individual service of the kind usually reserved for HNWI.

Valartis Group also caters for institutional investors as well as independent asset managers, fiduciaries and foundations or trusts with specific services and products. The Valartis banks have a great deal of experience in cross-border, partnership-based cooperations with external asset managers.

Regional marketing efforts are focused on expanding business in the Group's core markets as well as in the promising growth markets of Eastern Europe/CIS, Latin America, and Asia. As a comparatively small banking group with limited resources, Valartis Group focuses its energies primarily on those actively serviced core markets deemed to be most profitable in net margin terms. The main criteria for defining the core markets of the Valartis banks are profitability, the available linguistic, cultural, and market expertise within the Group, and the estimated market potential. The banks also provide services in various opportunity markets. Here clients are served on a passive basis, meaning that they either visit one of the Valartis bank branches or are looked after by a local intermediary (see chart depicting core and opportunity markets on page 20).

Group efficiencies

The Group aims to achieve firm-wide efficiency gains through partnerships. Cooperations offer a means of counteracting rising costs and can lead to new, alliance-based business models. To this end, Valartis Group engages in a continuous knowledge exchange with its partners, promoting the optimal use of available resources.

Outlook

The main focus of the client business for 2014 will be the successful servicing of the target markets as well as a clear increase in results orientation. The Institutional Clients business segment will be focusing on its presence in the market as well as optimising and expanding the breadth of its service offering. Based on current information, it is expected to find a solution for the 100 per cent subsidiary Valartis Bank AG, Switzerland, and to reach the intended settlement during the course of 2014. Because in the past this discontinued business unit, acting in the role of a head office, exercised the responsibilities and provided the services of a Corporate Center, the Group must now adapt its service organisation and group structure to new realities, demands and service structures. It intends to transfer the current Group organisation and infrastructure to a new one in a timely manner.

MILESTONES

2014 Sale of stake in Valartis Bank AG, Switzerland

2012 Sale of stake in Eastern Property Holdings Ltd.

Establishment of a branch of Valartis Bank AG, Switzerland, in Lugano

2011 Sale of stake in Valartis Bonus Card AG (former Jelmoli Bonus Card AG)

2010 Establishment of a presence in Singapore/Asia

2009 Acquisition of Hypo Investment Bank (Liechtenstein) AG, which is renamed Valartis Bank (Liechtenstein) AG

2008 Strategic refocusing on “Private Banking Plus”

Acquisition of Anglo Irish Bank (Austria) AG, which is renamed Valartis Bank (Austria) AG

2007 Group rebranded as “Valartis Group”

2006 OZ Bankers AG becomes a member of Visa Europe
Participation in the Jelmoli Bonus Card AG

2005 Merger of OZ Group and MCT companies (MCG Holding acquires 50 per cent of share capital and voting rights of OZ Holding AG)

CORPORATE SOCIAL RESPONSIBILITY

SUSTAINABLE BUSINESS PRACTICES

As an organisation with a broad network Valartis Group is well aware of the diversity of its stakeholders and takes their specific needs seriously. It is also aware of the importance these stakeholders place on both a successful and sustainable development of its business. For this reason, alongside purely economical considerations the Group also integrates social and environmental criteria into its strategy and business decisions. These criteria and values are collected in a formal Code of Conduct the contents of which are well known to all employees.

Corporate Responsibility

The Code of Conduct provides employees with guidelines for sustainable practices when dealing with clients, business partners, shareholders, and colleagues as well as other important stakeholders and dialogue groups with which the firm maintains contact (see graphic above). Valartis Group conducts an open, transparent dialogue with its stakeholders and builds long-term relationships based on trust and conducted on equal terms with its clients, business partners, investors, and employees. It understands the importance of good corporate governance for the success of its business and therefore works to ensure the implementation of recognised standards in this area (see also Corporate Governance on page 51 ff.).

RESPONSIBILITY TO CLIENTS – SUSTAINABLE GROWTH OF WEALTH

Valartis Group is dedicated to the traditional values of private banking – discretion, trust, expertise, and professionalism. It sees itself as a trustee and "financial coach" for a demanding investment clientele whose primary goal is sustainable growth of wealth at a reasonable return. Along with expertise and experience, sustainably growing wealth requires above all care and discipline with regards to implementation. For this reason Valartis Group's client advisors engage in personal discussions with their clients and take the time to get to know them well. They analyse their clients' wealth situation with an eye to understanding their professional and personal context as well as the individual client's financial needs and risk appetite. After that, and in conjunction with the client, investment specialists develop a prudent, individually tailored investment strategy designed to reach the client's financial goals. In doing so the specialists fully explain not just the opportunities but also the risks inherent in the strategy.

Thorough and prudent risk management and compliance

Valartis Group places a strong emphasis on risk management and compliance. Its business is grounded in a disciplined, prudent approach to risk. As a basic principle the Group will only assume risks that it can assess, evaluate, and bear. In the interests of and in order to protect its stakeholders, the Group also places the highest emphasis on independent risk management, compliance, and audit procedures. The efficacy of these policies can be seen among other things in the development of the firm's capital ratios (core and total capital) over the last five years. That its capital ratios have remained solid even after the increased capital requirements announced, at short notice, by the Swiss Financial Market Supervisory Authority (FINMA) as of 31 December 2013, is a further indication of the soundness of these policies (see also Notes to the Risk Management 74 ff and 113 ff to the Capital Management).

Group Compliance is responsible for ensuring adherence to all applicable laws and observance of all internal and external regulations as well as the timely implementation of new regulatory requirements.

Client satisfaction

Maintaining high levels of client satisfaction is a key priority for Valartis Group. To support this goal, and be in a position to make improvements if necessary, the Group some time ago implemented a client complaint process to ensure that all complaints are collected, professionally processed, and analysed. Should there be indications that measures need to be taken, this information is expeditiously sent to the relevant bank which is responsible for implementing the changes and communicating them internally. This process, including the procedures used to carry out the analyses, is constantly being improved.

Considering the small number of client complaints that have been received, the positive feedback enjoyed by our client advisors during client discussions, and the many instances in which clients have recommended us to others, we believe it is reasonable to assume that our demanding clientele is indeed satisfied with our services.

RESPONSIBILITY TO SHAREHOLDERS

As a listed company Valartis Group AG considers its public shareholders, with a free float of 41.7 per cent of the outstanding shares, to be as important a stakeholder as its majority shareholder MCG Holding, which holds 50.2 per cent of the capital of the company (see Valartis Group AG Bearer Share, page 189).

The Group takes seriously its responsibility to both majority and minority shareholders to operate in an economically viable manner. It's goal is to generate a profit which does more than just allow it to carry out targeted, partial reinvestment in its business activities to achieve sustainable growth in these economically difficult times. It is also the Group's intention to reward investors for the capital they have provided in the form of a suitable dividend whenever such profits have been realised.

SUSTAINABLE BUSINESS DEVELOPMENT – ON THE WAY TO VALUE-BASED MANAGEMENT

While the Group has historically been managed according to a profit-oriented, individual-company approach, over the last few years it has been transitioning to an approach centred on managing the bank as a whole. This approach is based on a systematic, multi-level financial planning and management process which employs a dual management concept involving a separation between decentralised management of front activities and a centralisation of the service organisation including the Group's own financial investments and hedging strategies.

Broad-based Board of Directors and Group Executive Management Committee

The medium- and long-term strategic direction of Valartis Group is set by the Board of Directors, whose five members, thanks to their professional backgrounds, have extensive experience in wealth management, finance and accounting, risk management, internal controlling, and commercial law (see also Corporate Governance Report on page 59 f.). The strategic objectives of the Board of Directors are implemented by the Group Executive Management that is comprised of the Group Chief Executive Officer (Group CEO), the Group Chief Financial Officer & Chief Risk Officer (Group CFO/CRO), and the CEO of Valartis Bank AG, Switzerland, for the transformation phase during the planned sale or merger, respectively of the Swiss bank (see also page 64). The Group Executive Management is responsible for the operational management of the Group and its results. Together, the committee defines the rolling operational medium-term planning, which includes the gross profit performance targets for the next three years, and sets the main tactical approach on the Group level.

The heads of the various business units of the Group report to the Group Executive Management Committee. Based on a detailed annual plan they each independently carry out their detailed yearly planning, setting their risk and return budgets for the coming year and deciding on the appropriate allocation of resources. Among other things, the bank CEOs are free to decide to what extent they want to reach their gross profit targets through increased revenue and/or to what extent through cost savings. Non-operational income and expenses, for example trading or valuation gains or losses, are on the other hand not a part of the medium-term planning. Results are closely monitored and discussed on a monthly basis, making it possible to quickly implement necessary operational countermeasures should there be significant deviations from the budget. At the same time, specially designed information and risk management systems make it possible to continuously keep operational risk under control (see also Risk Management page 74 ff.). The three-year capital plan is developed at the end of the financial management process.

RESPONSIBILITY TO EMPLOYEES – CREATING A BASIS FOR SATISFACTION AND SUCCESS

Contemporary remuneration system

An important instrument in Valartis Group's front-oriented management approach is its contemporary remuneration system. The system is geared to the long-term economic success of the Group and sets incentives that both encourage entrepreneurial thinking and strengthen the company as a whole. In practice this means that half of a variable performance component (bonus) is paid solely in shares of Valartis Group AG. These shares are paid out – in compliance with local laws – in various levels and forms over a time horizon of three to five years. Because deploying available means and resources in a risk-conscious manner is key to sustainable success for the company, the effective levels of share allocation are based not just on the returns achieved but also take into account the level of risk assumed (see details to the Compensation System of the Valartis Group Compensation Report, page 61 ff.).

Sustainable employee development

There is no doubt that qualified and dedicated employees are the most important capital for a service organisation like Valartis Group. It is only thanks to their specific expertise, experience, and solutions-oriented mind-set, as well as high degree of personal

commitment, that Valartis Group can hope to achieve sustainable results or continue on its successful course in the current economically difficult environment. At the same time, demands on employees in the banking sector are continuously on the rise. The financial services industry is becoming infinitely more complex due to new paradigms, increased regulation, and new products. Effective training for employees, in terms of the product offering as well as compliance, cross-border and other regulatory guidelines, is key to remaining competitive in the market and ensuring sustainable success for the company. Valartis Group is well aware of this and therefore pursues a policy of continuous, targeted development of its intellectual capital through a systematic, institutionalised employee training programme. The Group offers its client advisors regular internal trainings to ensure that they understand its broad financial product and service offering in detail and can clearly explain it to clients during client discussions. Trainings also ensure that client advisors can implement all applicable regulations in their daily business in a correct and timely manner.

As a responsible employer Valartis Group supports external training and development for its employees as well. For years it has invested about CHF 1,000 annually per employee to this end, and continues to do so. The Group also encourages intensive knowledge exchange among its interdisciplinary teams, including across borders.

Attractive remuneration models

Along with targeted employee advancement and development programmes Valartis Group offers its employees market conform salaries, progressive social benefits, and a number of fringe benefits such as seniority awards, marriage and birth benefits, or fleet discounts. These are offered in line with regional customs in the respective locations. As outlined below, the remuneration models for the Valartis banks in Austria and Liechtenstein have for historical reasons developed independently.

Valartis Bank (Austria) AG

The remuneration principles of the bank in Vienna are based on the business strategy and the long-term company targets and values. The fixed salary offers each employee a sufficient wage, to which a range of fringe benefits, for example in the areas of pension, health benefits, and support with daily lunch, are added. In order to promote loyalty among key personnel the company offers additional non-monetary benefits, in the form of special training and development measures. The salary mix can be enhanced through a variable component which takes into account the bank's overall results, those of the individual business units as well as the individual effort of the employee, and in so doing also promotes long-term employee loyalty.

KEY EMPLOYEE DATA

	2012*	2013*
Number of employees	317	298
of which client advisors	99	105
of which trainees	12	12
Employees, as full-time equivalents	300	280
Average age, in years	41.2	42.4
Average number of years at company	5.3	5.3
Number of nationalities	12	15
Percentage of female employees	41.2	45.4
Percentage of women in management positions	12.1	13.7
Number of employees with university degree	185	165
Number of employees in training or education courses	43	42
Training costs, in CHF	316,643	302,768
Training costs per employee, in CHF	1'079	1'016
Personnel expense, in CHF million	53.1	52.0
Personnel expense per full-time equivalent, in CHF	177,000	185,714

* including Valartis Bank AG, Switzerland (2012 and 2013 on a comparable basis). For detailed personnel information, please refer to Notes 5, 11 and 12 and the compensation system to pages 70 ff.

Valartis Bank (Liechtenstein) AG

The remuneration model of the bank in Liechtenstein is comprised of a share participation programme in which currently 32 top performers hold close to 30 per cent of the capital rights to the company and therefore have, through a dividend, a substantial stake in its long-term success. According to the principle of equal treatment for all, bonus payments are subsequently capped at 20 per cent of the fixed salary for all employees.

Focus on work-life balance

Among the fundamental prerequisites for maintaining long-term employee performance are the ability to combine family and career as well as achieve an appropriate work-life balance in support of a healthy body and mind. For this reason the Valartis companies have adopted market conform vacation and holiday policies and also offer employees the opportunity to set flexible working hours.

Regionally adapted recruitment models

The two Valartis banks also have slightly different strategies when it comes to recruiting new employees:

Valartis Bank (Austria) AG

The Valartis Bank in Austria relies primarily on its employees' extensive international network, which allows for a quick and efficient recruitment process. To recruit specialists the bank takes out advertisements in specific online and print media. Each year internships are also offered to university students as a means of generating interest in a possible position later on in the bank and, over the longer term, developing suitable junior employees. Particular emphasis is placed on foreign language skills, which is important for client advisors catering to a demanding international clientele.

Valartis Bank (Liechtenstein) AG

The Valartis Bank in Liechtenstein has made a conscious decision not to recruit teams from other banks and does not employ headhunters. Instead, the bank uses its proven approach of regularly engaging students from the universities of St. Gallen, Vienna, and Liechtenstein as trainees and giving them the opportunity to undergo an internal training in banking. About half of the department heads at Valartis Bank (Liechtenstein) AG began their professional careers in this way.

For detailed information per segment see pages 40 ff under Personnel Expenses. Information on claims from the employee participation programme as well as the personnel pension benefits of the Valartis Group is available in Notes 5, 11 and 12 of the Notes to the Consolidated Financial Statements. The compensation system of the Valartis Group is described in detail on pages 70 ff of the Compensation Report.

Value-based company culture

Employee satisfaction is a key success factor. Therefore, the Group strives for a value-based corporate and leadership culture that is truly lived and to constantly learn and undertake all possible measures to become an even more attractive and progressive employer. It consciously creates an environment in which employees can develop. It also promotes a culture of freedom of opinion and supports a high level of participation and co-determination among employees, while at the same time stressing their duty to make use of these rights.

Valartis Group adheres to strict principles of equal treatment and respect for other nations, cultures, and points of view as well as different age groups and needs. This is particularly true when it comes to determining salary levels. Female employees within the same region with the same qualifications receive basically the same salary as their male counterparts.

Across the Group women make up more than 45 per cent of staff, and 13.7 per cent of upper management (one level below the local executive management). A highly experienced female private banker, in the person of Monika Jung is CEO of Valartis Bank (Austria).

The development of trainees is a fixed part of the training programmes of Valartis Group and will remain so in the future.

RESPONSIBILITY TO SOCIETY

As a socially responsible company, Valartis Group supports a variety of charitable organisations and social, education, as well as sport projects.

Sponsoring engagements and client events

Sponsorships and client events provide an ideal platform to support the relationship with clients and potential clients as well as other stakeholders, for example media representatives, and to promote a sustainable positioning of the Valartis Group brand.

Despite a comparably modest marketing budget in the six-figure range Valartis Group is able to organise several marketing events for potential and existing private clients as well as for business partners and intermediaries. These run the gamut from specialist lectures with internal and external experts through varied sporting events with foreign business partners through to cultural activities like theatre and concert visits with client advisors and their clients.

Valartis Kitz Hedge Fund Summit

In January 2014, and in close association with the Snow Polo World Cup Kitzbühel, Austria, the second Valartis Kitz Hedge Fund Summit took place under the aegis of Valartis Fund Management (Liechtenstein) AG. More than 40 guests from the fields of wealth management, investment structuring, and tax advice took part in this top-class seminar focusing on the latest developments in the areas of tax, risk management, and sales.

RESPONSIBILITY FOR THE ENVIRONMENT

Resource efficiency as a success factor for the future

Efficient use of resources will remain a decisive factor for the success of organisations and institutions. Companies will increasingly be asked to supply concrete answers to questions of sustainability as well as to demonstrate a responsible use of non-renewable energy sources and increased investment in and/or use of renewable energy.

As an internationally active organisation Valartis Group is aware of its responsibility to the environment. At the moment internal capacity considerations dictate that the Group take a pragmatic approach and forego a systematic accounting of environmental information. The company is however working to gradually reduce its environmental footprint and hopes in future to be in a position to give this subject increased attention and dedicate appropriate resources.

Pragmatic approach in all locations

All locations are required to take resource efficiency into account in their daily business and integrate it into their processes. This includes reduction of and increased efficiency in electrical usage for computer systems, machines, etc. as well as reduction of the use of paper and use of sustainable products (e. g., use of FSC certified copy paper). In this spirit, the printed version of the half-year report of the Valartis Group AG has since 2011 only been available "on demand" when explicitly ordered. As with the annual report of the Valartis Group, the half-year report is otherwise made available online to all interested parties on the Valartis Group website (www.valartisrgoup.ch).

- Used paper is collected in special containers.
- Drinks for clients and employees are provided in returnable bottles which are brought back to the shops after being used.
- Whenever possible Valartis employees use public transportation. In doing so they make use of specially subsidised multi-trip tickets. Flights for client visits abroad are kept to the necessary minimum.
- In order to reduce energy use, in 2013 the Valartis Bank (Austria) AG carried out a general refurbishment of the heating and air conditioning system in its stately old building in Vienna.
- In 2008, and in close cooperation with the University of Liechtenstein, the new office building of Valartis Bank (Liechtenstein) AG was designed on the basis of environmental criteria. To conserve as much energy as possible, the building features a special facade and 30-meter long energy piles that cool the building in summer and heat it efficiently in winter through heat exchangers.

BUSINESS ACTIVITIES

Ponder, plan, pace yourself

KEEP YOUR EYES ON THE GOAL

COMMENTS ON BUSINESS ACTIVITIES

In its 2013 consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards (IFRS), Valartis Group is reporting a net profit for continued operations including one-off factors (discontinued operations and value adjustments on receivables from the sale of Eastern Property Holdings Ltd. due to impairments on its real estate projects) of CHF 13.2 million (2012 on a comparable basis: CHF 7.6 million). Income from commissions and service fees from continued operations increased by 13 per cent compared to the previous year. Despite expenses associated with the implementation of new regulatory requirements, overall costs only rose by a modest 3.0 per cent. Net profit from continued and discontinued operations was CHF 0.4 million (2012 on a comparable basis: CHF 10.2 million).

Continued strategic focus

In line with the strategy it introduced in 2008, after the build up of its private banking business activities, Valartis Group in 2011 and 2012 further focused its efforts on wealth management through two divestments. Continuing this strategic focus, in 2012 and 2013 the Group – along with an increase in assets under management in its Private Clients business – concentrated on the implementation of further cost-cutting measures. As part of this Valartis Group focused first and foremost on the servicing of its strategic core markets, the adaptation of its product and service offering to the needs of its international target client segment, as well as on revamping its business model and structures to enable a more rigorous focus on profitability. In order to achieve a sustainable, future-oriented cost/income basis for the Group as a whole (range 65 to 70 per cent), the decision was taken to look for the best possible solution for shareholders, clients, and employees of Valartis Bank AG, Switzerland, which with its almost 70 employees manages only about a fifth of the client assets of Valartis Group yet accounts for some 30 per cent of its costs.

Discontinued operations

In the course of the strategic realignment of the business model and the streamlining of structures, on 26 August 2013, the Board of Directors of Valartis Group decided to divest Valartis Bank AG, Switzerland; this was communicated to all stakeholders on the following day. During the first half-year 2013, it had become apparent that the acquisition capacity of Valartis Bank AG, Switzerland, could not be increased at the planned rate, despite the newly aligned front-office organisation, and that the Bank would not attain the appropriate critical mass within the foreseen timeframe. The Swiss Bank's costs, together with costs stemming from measures from increasing regulatory changes, accelerated in 2013, squeezing margins even further and, thus, significantly raising the level of the necessary critical mass for a Swiss bank. Valartis Bank AG, Switzerland, is a wholly owned subsidiary of Valartis Group with offices in Zurich, Geneva, and Lugano.

For that reason, the provisions of the International Financial Reporting Standards (IFRS) for continued and discontinued operations (IFRS 5) apply for the 2013 Annual Report. The affirmation of the annual results as arising from the correct application of accounting principles therefore equates these with a fiscal result.

It is expected that the intended settlement will be reached during the course of 2014 and with that said, Valartis Group is reporting a net profit from continued operations, at CHF 13.2 m (previous year on a comparable basis: CHF 7.6 m).

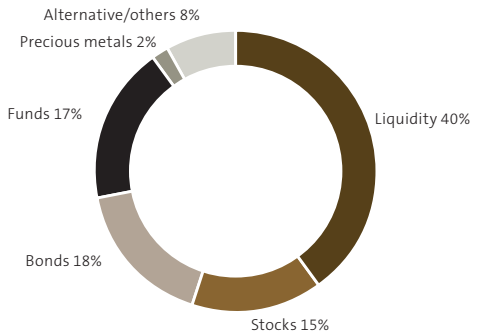
CLIENT ASSETS

Due to realignments on the front organisation, the pace of the Group's focus on the private client business was slower than in previous years. In 2013, Valartis Group is reporting net new money inflows from continued operations of CHF 438 million (2012: CHF 850 million). Market- and currency-dependent reductions in assets in 2013 were CHF 83 million due to the continued high levels of foreign exchange and gold holdings of our clients. Custody assets as well as assets in partially leveraged funds rose slightly in 2013 to CHF 0.7 billion at year-end (2012: 0.6 billion). Total assets under management by Valartis Group as at 31 December 2013 were CHF 8.0 billion (2012: 7.8 billion). Assets under management in continued operations at the end of 2013 were CHF 6.0 billion (2012: CHF 5.5 billion).

As at 31 December 2013, total client assets under management were distributed between the two core business segments as follows:

– Private Clients: CHF 6.9 billion or 87 per cent
– Institutional Clients: CHF 1.1 billion or 13 per cent

Client assets by asset class
(incl. Valartis Bank AG, Switzerland)



With 40 per cent in cash, 18 per cent in bonds and 2 per cent in precious metals, the assets managed by Valartis Group continue to show a security-minded risk profile. Only some 15 per cent of client assets at the end of the year were invested in equities and 17 per cent in funds. Some three-quarters of client assets are in US dollars (42 per cent) and euros (28 per cent). Nine per cent of assets are in Swiss francs.

INCOME STATEMENT

Gross operating profit

The continued fall of interest rates in 2013, along with a dearth of re-investment opportunities for bonds, had a negative effect on Valartis Group's interest income. As a result, income from interest fell by 4.0 per cent to CHF 17.5 million (2012: CHF 18.3 million).

Income from commission and service fees on the other hand rose by some 13 per cent to 47.1 million (2012: CHF 41.5 million). The individual positions performed as follows:

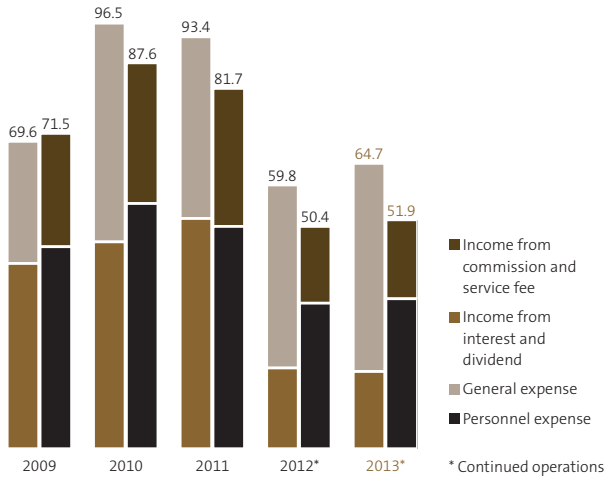
– Income from wealth management and asset management business: up 15 per cent
– Commission income: stable at prior-year level
– Custody account fees: stable at prior-year level
– Income from service fees: up 51 per cent

In 2013 trading results closed significantly lower than in the previous year at – CHF 3.6 m (2012: CHF 6.3 m). This was due to lower market valuations of financial instruments classified in the trading book and negative foreign exchange rates for the US dollar. Furthermore, as a consequence of the sale agreement, Eastern Property Holdings Ltd. (EPH) value adjustment for 2013 on its real estate projects also influenced Valartis Group. It is reflected in the net calculation of project profit for the EPH Escrow Accounts arising out of the sale, which Valartis Group posted on 28 December 2012, and requires a corresponding correction for the financial year 2013 for Valartis Group.

The Swiss Financial Market Supervisory Authority (FINMA), which exercises consolidated banking supervision over Valartis Group AG, imposed stricter capital adequacy requirements on the Group in 2013, as it did for many banking institutions in the Swiss financial sector. In order to reduce Valartis Group's risk profile to a sufficient degree and prevent a potential violation of the more stringent capital adequacy requirements, parts of the bond portfolio classed as "held to maturity" were sold in 2013. As a result, other ordinary income for 2013 was CHF 12.7 million (2012: CHF 4.6 million). (See also pages 38 and 113 ff.)

Overall, the Group is reporting operating income of CHF 73.7 million and a gross operating profit of CHF 21.7million in 2013, compared with operating income of CHF 70.7 million and gross operating profit of CHF 20.3 million in 2012.

Income from commission and interest versus administrative expense



Administrative expense

Administrative expenses rose slightly compared to the previous year, up close to 3 per cent to CHF 52.0 million (2012: CHF 50.4 million). At the end of 2013, Valartis Group employed 285 full-time equivalents (previous year 299 full-time equivalents). In its continued operations the Group employed 217 full-time equivalents (2012: 220 full-time equivalents).

Thanks to improved cost management, which compensated for the extra consulting and project costs in 2013, general expenses only saw a slight increase to CHF 17.9 million (2012: CHF 17.4 million).

Depreciation, amortisation, valuation adjustments, provisions, and losses

At CHF 10.5 million, depreciation and amortisation are comparable to last year (2012: CHF 10.3 million). Compared to 2013, the decline of amortisation from acquisitions will result in further significant reductions in charges to the income statement relating to depreciation and amortisation over the next two years: by approximately CHF 3.6 million in 2014 and CHF 4.0 million in 2015.

Net profits

The consolidated financial statements for 2013 for continued and discontinued operations show a consolidated profit of CHF 0.4 million compared to 2012 of CHF 10.2 million taking into account non-recurring, exceptional factors resulting from the divestment or merger, respectively of Valartis Bank AG, Switzerland, planned for 2014, and a significant unforeseeable effect of value adjustments on receivables from sale of Eastern Property Holdings. Ltd.

Business segments

A breakdown of results by Valartis Group business segments Private Clients and Institutional Clients as well as the Corporate Center can be found from page 40 to 48 as well as in Note 44 of the Notes to the Consolidated Financial Statements. In the note the business segments are also broken down by continued and discontinued operations.

CAPITAL AND RISK

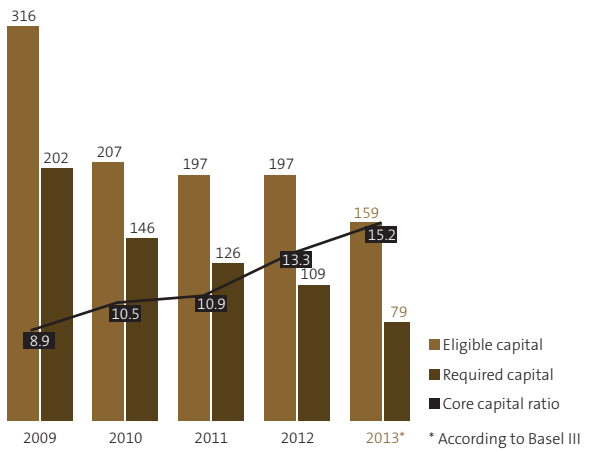
For credit and market risks Valartis Group uses the Basel III standard approach and for operational risks the Basel III basic indicator approach.

As already mentioned, the Swiss Financial Market Supervisory Authority (FINMA), which exercises consolidated banking supervision over Valartis Group AG, imposed stricter capital adequacy requirements on the Group in 2013, as it did for many banking institutions in the Swiss financial sector. The treatment of capital investments of minority shareholders in fully consolidated group companies is to be implemented earlier than required by Basel III in that the transitional provision set out in Art. 142 para. 1 of the Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Traders (CAO) is to be waived. Under these new capital adequacy requirements, in respect of capital investments of minority shareholders in fully consolidated group companies, the amount included in eligible capital cannot exceed the amount required for covering the proportional capital needs of the subsidiary, this taking effect for the first time as at 31 December 2013, and not as at 1 January 2019 as envisaged under Basel III. This clearly reduces the eligible capital.

In order to reduce Valartis Group's risk profile to a sufficient degree and prevent a potential violation of the more stringent capital adequacy requirements, parts of the bond portfolio classified as "held to maturity" were sold in 2013.

With these changes, as at 31 December 2013, Valartis Group business activities required equity capital in the amount of CHF 78.8 million (2012: CHF 108.8 million). Due to increased capital requirements, however, eligible capital amounted to CHF 158.5 million (2012: CHF 196.7 million). With this, the core capital ratio as at 31 December 2013 was 15.2 per cent (2012: 13.3 per cent, minimum requirement: 9.0 per cent). The total capital ratio as per Basel III as at 31 December 2013 was 16.1 per cent (2012: 14.5 per cent as per Basel II). As Valartis Group does not count any hybrid capital towards its eligible equity capital and does not net any assets or liabilities (balance sheet contraction) in accordance with IFRS, Valartis Group equity capital is not "diluted" and can be considered to be good. (See also Risk Management on page 74 ff.)

Eligible versus required capital



STATEMENT OF FINANCIAL POSITION

Due to discontinued operations, total assets as at 31 December 2013 dropped considerably compared to the previous year, by 27 per cent to CHF 2.3 billion. On the liabilities side and pertaining to continued operations, amounts due to clients dropped from CHF 2.5 billion to CHF 1.9 billion. On the assets side there was a related reduction in cash and, due to the sales of parts of the bond portfolio classified as held to maturity, increase in collateralised interbank placements. Group equity at the end of 2013 was CHF 319.2 million while the equity attributable to the shareholders of Valartis Group AG was CHF 253.0 million.

PRIVATE CLIENTS

The Private Clients business segment includes the wealth management business of Valartis Group. For the 2013 financial year this consisted of the three Valartis banks in Switzerland, Austria, and Liechtenstein. The segment is managed by Group Executive Management headed by Gustav Stenbolt, Group CEO. The CEOs of the three banks report to the Group CEO, and together with George M. Isliker, Group Chief Financial and Chief Risk Officer, they form the Group Executive Management team (see on page 64: Realignment of Group Executive Management for the transformation phase as of 9 April 2014).

In addition to wealthy individuals, the Private Clients business segment mainly serves affluent clients with assets of CHF 500,000 or more at its locations in Zurich, Geneva, Lugano, Vienna, and Liechtenstein. Its target markets include the home markets of Switzerland, Austria, Liechtenstein, and the neighbouring countries, as well as in particular Central and Eastern Europe/CIS, the Middle East, parts of North and South America, and certain countries in Asia. To ensure efficient and effective development of these markets, the three Valartis banks have a differing emphasis in their definition of actively canvassed core markets and passively managed opportunity markets, for both historical and regulatory reasons.

Development of the private banking business

As part of the expansion of its private banking and wealth management activities, in 2008 Valartis Group AG acquired Anglo Irish Bank (Austria) and renamed it Valartis Bank (Austria) AG. The bank, based in Vienna, was founded in 1890. This was followed by the acquisition of Valartis Bank (Liechtenstein) AG in 2009, which was founded in 1998 as Hypo Investment Bank (Liechtenstein) AG and has a full banking licence in Liechtenstein.

In parallel with this, the private banking activities of Valartis Bank AG, Switzerland, were progressively expanded at its locations in Zurich and Geneva, and additional private banking teams were built up in Liechtenstein and Vienna. In 2010, this expansion saw Valartis establish its first presence in Asia with an office in Singapore, followed in autumn 2012 by Lugano in Italian-speaking Switzerland, where Valartis Bank AG, Switzerland, opened its third bank branch.

By means of tactical divestments of Group companies unrelated to private banking in 2011 and 2012, as well as efficiency improvements in 2012 and 2103, Valartis Group focused its strengths on private banking activities, subordinating all Group activities and services to this strategy. Around 105 client advisors manage assets totalling CHF 6.7 billion at the five locations (continued and discontinued operations).

SEGMENT KEY FIGURES*

In CHF 1,000	2013	2012
Operating income	48,146	46,382
Income from interest and dividend	7,456	10,709
Income from commission and service fee	34,277	29,339
Income from trading	6,199	5,895
Other ordinary income	1,526	1,503
Administrative expense	-34,761	-32,560
Personnel expense	-23,694	-22,458
General expense	-11,067	-10,012
Services from/to other segments	-1,312	-1,064
Gross operating profit	13,385	13,822
Total assets under management, in CHF million	6,747	6,714
Net new money inflow, in CHF million	508	1,039

* continued operations, 2012 and 2013 on a comparable basis.
Additional details on the segment reporting is available in Note 42 in the Information on the Consolidated Financial Statements.

Discontinued operations

Despite such measures and a realignment of the front organisation, the expected improvement in the ability of Valartis Bank AG, Switzerland, to acquire clients had still failed to materialise by the first half of 2013. By this time it had become clear that the bank would be unable to achieve the necessary critical mass in the foreseeable future.

The Swiss banking subsidiary employs 70 people and manages around one-fifth of the client assets of Valartis Group, but accounts for 30 per cent of costs. In order to achieve a sustainable cost-income ratio across the Group, the Board of Directors of Valartis Group AG decided on 26 August 2013 to divest Valartis Bank AG, Switzerland. This decision was communicated to all stakeholders the following day.

On the basis of the information currently available to it, the Board of Directors of Valartis Group AG believes that it has as of end-2014 found the best possible solution for the shareholders, clients and employees of the wholly owned subsidiary Valartis Bank AG, Switzerland. Accordingly, the requirements of International Financial Standards (IFRS) concerning continued and discontinued operations (IFRS 5) apply to the 2013 financial statements.

Operating income of continuing operations

The other two banks handled the challenging conditions in the financial markets last year very well. Net new money inflows slowed compared with the previous year, but client assets in the business segment increased by CHF 508 million (net new money inflows in 2012: CHF 931 million).

Operating income from continued operations, comprising the Valartis banks in Austria and Liechtenstein including their fund administration companies, remained stable at CHF 48.2 million year-on-year (2012: CHF 46.4 million). Interest income declined by 30 per cent (CHF 3.3 million), but this was offset by higher commission income (up 17 per cent or CHF 4.9 million). While transaction-based earnings were stable, asset-based earnings increased in line with client assets.

With personnel expenses of CHF 23.7 million and general expenses of CHF 11.1 million, administrative expenses for the segment rose by 7 per cent year-on-year to CHF 34.8 million in 2013 (2012: CHF 32.6 million). This was mainly due to ongoing organic growth in private banking – the full-time equivalent headcount rose by 6 per cent in 2013 from 163 to 172 employees, primarily in Liechtenstein – and once again to one-off effects in personnel expenses that arose from changes in staff and the doubling up of certain positions.

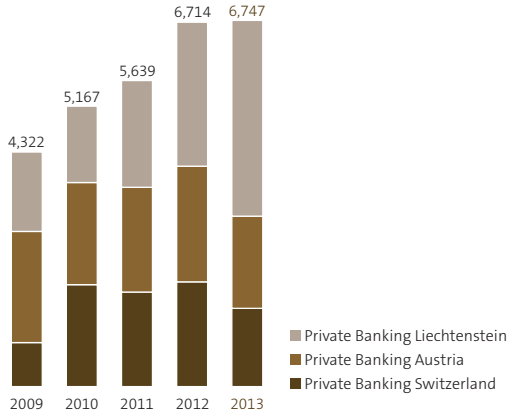
As a result, the Private Clients segment recorded a gross profit of CHF 13.4 million, a 3 per cent decrease (2012: CHF 13.8 million). Minus depreciation, valuation adjustments, and provisions, the segment's earnings before amortisation from acquisitions and before taxes decreased from CHF 11.1 million to CHF 10.1 million.

PRIVATE BANKING SWITZERLAND

In 2013, Valartis Bank AG, Switzerland, maintained the expansion strategy pursued in previous years. At the end of 2013, after net new money outflows of CHF 77 million, the Swiss bank still managed client assets in the amount of CHF 1.2 billion via its approximately 30 private banking client advisors.

Having reported a profit of CHF 2.3 million under International Financial Reporting Standards (IFRS) in 2012, Valartis Bank AG, Switzerland, reported an annual profit of CHF 7.3 million as a result of the sale of the bond portfolio. The bank further strengthened its capital base, increasing its core capital (BIS tier 1 ratio) to an outstanding 22.9 per cent.

Client assets by private banking location



The Swiss bank's success in sustaining value, continuing to provide a top-class service to clients, and keeping costs under control can be attributed to the efforts of its staff. This is particularly important in view of the fact that as of 26 August 2013 the bank's employees were aware that attempts were being made to find a solution for the Swiss business outside Valartis Group.

PRIVATE BANKING AUSTRIA

Valartis Bank (Austria) AG employed 95 people from 12 countries at the end of 2013.

The bank once again recorded solid operating results in 2013, reporting a pretax profit of CHF 8.4 million (2012: CHF 10.9 million) in an environment that remained difficult and challenging. Valartis Bank (Austria) AG has a very strong core capital ratio (BIS tier 1 ratio) of 35.9 per cent (2012: 26.6 per cent). The increase is largely attributable to the continued reduction in risk positions.

As at 31 December 2013, the bank managed client assets totalling some CHF 1.7 billion (2012: CHF 2.1 billion). The net new money outflows are linked to fund volumes that changed custodian bank which, however, essentially constitute low-margin business.

Austrian banking center continues to enjoy a high level of trust

Austria is regarded by private banking clients as an attractive and secure banking centre. Private clients of Valartis Bank (Austria) AG value the decades of private banking expertise of a bank whose tradition stretches back to its foundation in Vienna in 1890, together with its above-average capital base and the Austrian legal system, with its strict bank client confidentiality law.

"Professionalism and discretion are the cornerstones of our private banking philosophy. We create personal and enduring client relationships by responding to the individual expectations and goals of our wealthy clientele and by protecting and growing their assets with skill and care. Partnerships based on reliability are the core of a comprehensive wealth advisory and planning service based on a professional and solution-oriented investment approach."

Monika Jung, CEO of Valartis Bank (Austria) AG

Focus on client service and asset protection

Valartis Austria's declared objective is to protect and grow the assets entrusted to it over the long term. It offers a wide range of services, from wealth management and active investment advice to financial consultancy and individual pension solutions. The bank has expanded its active servicing of clients to provide even more transparent and solid investment services and to effectively communicate the measures it has taken.

For its international marketing and expansion of its client base, Valartis Bank Austria cooperates with a broad network of well-established local intermediaries. The structure of these cooperations has been further optimised to comply with more stringent regulatory record-keeping requirements. For distribution-related reasons, a decision was taken at the end of 2013 to close the branch in Singapore and service Asian clients out of Vienna.

Valartis Bank (Austria) AG has built a solid platform for continuity and continued growth. Thanks to its strong capital base, proven business model, comprehensive product and service offering, as well as well-trained client advisors and investment specialists, the bank will be able to tackle the challenges that banks in Austria are facing.

Under new leadership

The Supervisory Board of Valartis Bank (Austria) AG appointed Mag. Monika Jung to the post of CEO with effect from 1 February 2013. She had held the position ad interim since autumn 2012. Andreas Rosenbaum as CFO was appointed to the Senior Management in May 2013.

Over the last twelve months, the bank has undergone a radical transformation process focusing on optimising its human resources and organisational structures. These included the appointment of new members of management and a restructuring and optimisation of the private banking team. The latter was enhanced by the recruitment of a number of experienced private bankers to drive growth in the relevant core markets. The IT, operations, and compliance resources necessary to respond to increasingly strict regulation were built up and streamlined. Valartis Bank (Austria) AG also moved ahead with the measures required to comply with the Foreign Account Tax Compliance Act (FATCA) by the registration deadline of 25 April 2014.

Well-positioned for more growth

Thanks to its multicultural staff of experienced specialists and a flat organisational structure, the Vienna-based bank is well equipped to offer both international and domestic private clients the right solutions for their needs. On the basis of the progress made in market development in recent years, the management of Valartis Bank (Austria) AG is confident that, despite the unpredictable market environment, client assets will continue to increase, and that this organic growth will lead to an improvement in operating results.

PRIVATE BANKING LIECHTENSTEIN

Valartis Bank (Liechtenstein) AG, which has been part of the Group since 2009, has posted especially gratifying growth in recent years. With net new money inflows of CHF 874 million, Liechtenstein's sixth largest bank by volume and earnings was able to boost its client assets in 2013 by a third to CHF 3.5 billion while recording an after-tax profit of CHF 15.6 million (2012: CHF 10.4 million). This is the best annual result in the Bank's 14 -year history. The bank's total balance sheet assets at year-end exceeded one billion francs at CHF 1.4 billion. The return on equity was more than 25 per cent, while the cost/income ratio was low at 49 per cent. These are some of the best ratios in the international financial services industry.

"With a targeted employee share participation programme, Valartis Bank (Liechtenstein) AG aims to give creative individuals a perspective for the future, generate a pride in innovation, and retain talented employees for the long term in order to produce sustainable growth for the bank's clients."

Andreas Insam, CEO Valartis Bank (Liechtenstein) AG

Organisation and employee participation help drive success

One of the success factors for Valartis Bank (Liechtenstein) AG is its employee share participation programme: 32 employees hold 29 per cent of the capital rights to the company and therefore have, through a dividend, a substantial stake in its long-term success. Variable payments are capped at 20 per cent of the fixed salary for all employees.

Another key success factor for the bank in Liechtenstein is its organisation based on language region (German, English, Italian, Turkish, Russian, Polish, Serbian, Croatian, Slovenian, Hungarian, and Mandarin). The assignment of well-trained client advisors to specific language regions guarantees that they will have an understanding of their clients' culture, while also making it possible to provide the right advice and service in line with the needs of their clients.

Organic growth to continue

In 2013 Valartis Bank (Liechtenstein) AG once again hired new employees and at year-end had a headcount of 82 (FTE). The employment situation for the Liechtenstein financial center is currently very tough for jobseekers. As a result, the bank was able to hire highly-qualified professionals at attractive conditions and expand the existing teams in a targeted manner.

To deal with an increase in transaction volumes mirroring the rise in client assets under management, further automation of the payment process was implemented last year. The bank also further aligned its IT systems and processes to the requirements of the tax treaties with other countries.

In particular, the management of Valartis Bank (Liechtenstein) AG sees major opportunities for growth in the surprisingly strong economies of emerging market Asia. Accordingly, the bank is stepping up its exposure to these markets and is planning a progressive expansion of its Mandarin desk.

The goal of Valartis Bank (Liechtenstein) AG is to accompany its clients over generations and to create long-term added value for them. Not only are the bank's highly qualified employees multilingual, but they are also entrepreneurial in the way they think and act. They have a great deal of independence when it comes to decision-making. The bank focuses its operations by language region, which makes market access more efficient.

INSTITUTIONAL CLIENTS

The Institutional Clients business segment comprises Valartis Group's asset management and private equity activities. Like the Private Clients business segment, it is managed by Group Executive Management, a five-member team chaired by the Group CEO, Gustav Stenbolt (realignment of Group Executive Management for the transformation phase as of 9 April 2014, see also page 64).

Today the following business activities of the following Group business units are integrated into this segment:

Asset Management
Valartis International Ltd.,
Valartis Asset Management S.A.,
MCT Luxembourg Management S.à.r.l.

Private Equity
ENR Russia Invest S.A.

Real estate portfolios
Berlin Real Estate
German Residential Health Care
Sociétés des Centres Commerciaux d'Algérie (SCCA)

The structured finance activities are no longer part of this business segment having been allocated to discontinued operations in accordance with the requirements of the International Financial Reporting Standards (IFRS 5).

The Institutional Clients business segment offers special product combinations. In delivering these, Valartis Group combines a wide array of traditional private banking services with specialised advisory and banking services in the fields of asset management and private equity, as well as innovative investment products covering the asset classes equities, fixed income, alternative investments, and real estate.

However, the Austrian and Liechtenstein fund companies – Valartis Asset Management (Austria) Kapitalanlagegesellschaft m.b.H. and Valartis Fund Management (Liechtenstein) AG – are not considered part of this business segment. These latter two companies are wholly-owned subsidiaries of the respective Valartis banks in Austria and Liechtenstein. Although their asset management activities are covered in this section, their fund assets and gross income are both included in the Private Clients business segment.

Activities

The continuing operations in the Institutional Clients business segment now manage client assets totalling CHF 729 million (2012: CHF 743 million). On a full-time equivalent basis, the segment has 33 employees (2012: 54).

The business segment's operating income decreased by 35.0 per cent in 2013 to CHF 15.1 million (2012: CHF 23.2 million). Meanwhile, interest and dividend income was up 17 per cent to CHF 5.7 million (2012: CHF 4.9 million) and commission income increased by 4 per cent to CHF 13.2 million (2012: CHF 12.7 million). Administrative expense was 11 per cent lower at CHF 11.6 million, down from CHF 13.0 million in 2012. This resulted in a drop in gross income of 65 per cent to CHF 3.6 million (2012: CHF 10.2 million).

There were net new money outflows of CHF 71.0 million in 2013 (2012: minus CHF 81.0 million). On a market and currency-adjusted basis, client assets totalled CHF 729 million as at 31 December 2013 (2012: CHF 743 million).

Outlook

For 2014 to 2016, Valartis Group's medium-term operational planning targets an increase in assets in self-managed funds every year, to be achieved by stepping up sales and marketing and launching new investment products. It also envisages the further expansion and strengthening of its private equity activities.

In management's view, the biggest challenges for the current year will be to bolster sales and distribution and smoothly implement the upcoming regulatory measures. The focus here will essentially be on statutory requirements directly impacting the fund industry, such as the AIFM Directive or UCITS IV and V.

SEGMENT KEY FIGURES*

In CHF 1,000	2013	2012
Operating income	15,138	23,163
Income from interest and dividend	5,708	4,867
Income from commission and service fee	13,240	12,675
Income from trading	-9,980	4,626
Other ordinary income	7,019	1.965
Administrative expense	-11,556	-12,992
Personnel expense	7,224	-7,650
General expense	-4332	-5,342
Services from/to other segments	-849	-970
Gross income/loss	3,582	10,171
Total assets under management, in CHF million	729	1,084
Net new money inflow, in CHF million	-70	-110
Employees, as full-time equivalents (FTE)	33	54

* continued operations, 2012 and 2013 on a compable basis.
Additional details on the segment reporting is available in Note 44 in the Information on the Consolidated Financial Statements.

ASSET MANAGEMENT – FUNDS & INVESTMENT COMPANIES

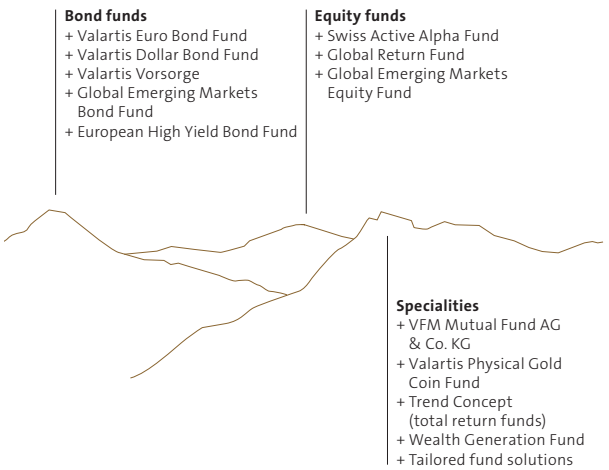
Wealth management is one of the core competencies of Valartis Group. For institutional and private clients, the goal is to identify compelling investment opportunities and to use the Group's expertise in the development, structuring, and management of funds and investment companies to offer investment solutions that add value. The business segment seeks to achieve superior returns by combining active management with a value-based investment process.

On the one hand, the Institutional Clients segment creates, launches, and manages niche investment products. By harnessing strategic focus and individualisation, these products offer clients attractive investment opportunities that go beyond the mainstream, and that would otherwise not be available to them. In keeping with the core-satellite investment philosophy, the niche investment strategies often deliberately deviate from index weightings in order to open up opportunities for outperformance. Valartis Group's satellite products come in the form of specialised regional or sector funds or investment companies, and are typically used to supplement core index-tracking portfolios with a view to addressing specific investment needs. The main focus is on investments in the asset classes of equities, fixed income, alternative investments, and funds of funds. The primary investment focus is on emerging markets, especially in the Russia/Eastern Europe/CIS region, as well as Central Europe and Switzerland.

On the other hand, and in addition to its specialised niche funds for qualified investors, Valartis Group also offers core investment fund products for private investors. These have a strong index component, and unlike the niche products are primarily intended for internal distribution to private clients. The idea behind core products such as the Global Emerging Market Equity Fund or the Global Emerging Markets Bond Fund is to offer smaller investors in particular an opportunity to better diversify their portfolios. Considering that bonds offering interesting returns are usually issued only in minimum tranches of EUR 100,000 to EUR 200,000, which effectively rules out direct investments for affluent clients, Valartis Group's European High Yield Bond Fund is clearly an attractive alternative for smaller investors.

In making its investment decisions, Valartis Group is supported by a team of experienced portfolio managers, analysts, and other investment specialists at its various locations. The wide-ranging expertise of these investment specialists is also used strategically within the Group to offer institutional investors and larger private banking clients investment structures that are tailored to their individual needs. For example, the total-return-oriented investment specialists in Vienna offer special fund solutions investing in securities , while the fund management experts in Liechtenstein offer customised private label funds for open or closed groups of investors with very specific investment needs.

Our investment fund products



Niche equity funds with a focus on Switzerland and Eastern Europe

The Swiss asset management team was very successful in terms of the performance of its specialised niche investment funds. In particular, the Valartis Russian Market Fund (formerly MC Russian Market Fund) fared well, posting an annual performance of minus 0.7 per cent (2012: 21.3 per cent), compared with the minus 2.0 per cent recorded by its benchmark, the MSCI Russia 10–40 Index. A pioneer in the Russian equity market, this flagship product has generated an impressive overall return of 1,014 per cent (2012: 1,023 per cent) since its launch in 1996.

The Valartis Russian & CIS Fixed Income Fund invests in debt instruments issued by companies and regional governments in the CIS countries, and pursues a total return strategy. With a performance of minus 1.2 per cent in 2013, it also fared better than its benchmark, the JPM Emerging Markets Bond Index Plus EMBI +Russia Index (minus 5.4 per cent). In recognition of its outstanding performance in recent years, the Valartis Russian & CIS Fixed Income Fund received the Lipper Fund Award 2013 as the top performer in the "Bonds Emerging Markets Europe" category.

The Swiss Active Alpha Fund, which invests in small and medium-sized companies listed on the SIX Swiss Exchange, regularly ranks among the top five performers in its class. It posted a very solid performance of 31.0 per cent in 2013 (2012: 23 per cent), thus once again clearly beating its benchmark, the SPI Extra (27.7 per cent). Part of this outperformance is attributable to primary research in the form of company visits conducted by our investment

specialists in Switzerland together with their long-standing partner KK Research as well as to our proprietary valuation method.

The bond funds and equity funds launched at the end of 2012 performed well in 2013:

- European High Yield Bond Fund: performance of plus 3.6 per cent (benchmark Markit iBoxx EUR Liquid High Yield Index TRI plus 7.9 per cent)
- Global Emerging Markets Bond Fund: performance of minus 5.2 per cent (benchmark JP Morgan Emerging Markets Bond Index EMBI Global Diversified Composite minus 5.3 per cent)
- Global Emerging Markets Equity Fund: performance of minus 12.3 per cent (benchmark MCSI Emerging Market Index minus 2.3 per cent).

Outlook

With the broad asset management expertise within the Group as a platform, coupled with the available internal resources in investment fund management, we are confident that we will be able to continue to develop our fund business successfully going forward, while also reaching new clients with our fund products thanks to the bolstering of internal distribution efforts. The fact that we have already transferred our Luxembourg-domiciled Eastern European products into a UCITS IV structure is also helping in this regard, as approval for distribution in other EU countries is thus easier to obtain.

Retail and special funds made in Austria

Valartis Asset Management (Austria) Kapitalanlagegesellschaft m. b. H. (VKAG) is responsible within Valartis Group for the structuring of retail funds. The total-return-oriented investment specialists in Vienna also design special funds investing in securities for institutional clients, private foundations, and wealthy individuals. This wholly-owned subsidiary of Valartis Bank (Austria) AG posted a growth rate of around 17 per cent in 2013, and as at year-end had some CHF 393 million in investment fund assets under management.

In the past year, VKAG's activities centred on further optimising processes, particularly in risk management, and it also continued to focus on analysis and measures relating to regulatory changes such as the Austrian Alternative Investment Fund Managers Act (AIFMG) and EMIR. In addition to addressing these key issues from an administrative perspective, VKAG was also able to increase its assets under management thanks to successes in investment fund sales in the private banking and institutional businesses alike.

We expect this trend to continue in 2014. On the one hand, fund projects have already been realised that will have an impact on both volumes and income from the second quarter. Meanwhile, the distribution activities will be further enhanced within the Group as well as in the institutional segment.

Private label funds from Liechtenstein

Valartis Fund Management (Liechtenstein) AG was established as a wholly-owned subsidiary of Valartis Bank (Liechtenstein) AG in 2007. It sets up bespoke special funds to offer flexible and forward-looking instruments for realising selected investment strategies for wealthy private clients, families and small closed groups of investors from among the shareholder's contacts and clients.

The Liechtenstein Financial Market Authority FMA gave the company the green light on 21 December 2007, issuing a license to start business operations in accordance with Art. 55 para. 1 prov. a in conjunction with Art. 56 of the Liechtenstein Law on Investment Undertakings (IUG), as well as approval to manage individual portfolios and provide investment advice pursuant to Art. 24 para. 3 IUG. Since spring 2013, Valartis Fund Management (Liechtenstein) AG has once again been an authorised management company under Art 13 et seq. of the Liechtenstein UCITS Act (UCITSG). It already held such a license through to mid-2011 but did not immediately reapply for authorisation following a change in the law.

The company successfully increased business volumes across the board in 2013. There was sustainable growth in both the number of mandates as well as assets under management. The vast majority of the mandates are managed with Valartis Bank (Liechtenstein) AG as the custodian bank, which further enhances the fund business of the bank in Liechtenstein and promotes synergies.

The bank intends to continue to expand its group of skilled employees in 2014 and beyond. At Valartis Fund Management (Liechtenstein) AG, the areas of asset management, risk management and international fund structuring including tax analysis will in particular be developed, with a view to addressing increasing regulatory requirements.

Valartis Fund Management (Liechtenstein) AG continues to focus its activities on providing complex fund solutions in the alternatives segment, but can also efficiently manage traditional fund mandates in equities and bonds. The fund company also occupies a particular niche with its US life settlement business. In this segment, it now manages two funds. One of these – via its wholly-owned subsidiary VFM Mutual Fund AG – is among the world's largest US life settlement portfolios with an insured value of more than USD 1 billion.

PRIVATE EQUITY INVESTMENTS IN RUSSIA AND EASTERN EUROPE

Our range of specific investment products for Russia and Eastern Europe is supplemented by ENR Russia Invest SA ("ENR"). Valartis Group holds a stake of around 61 per cent in this investment company, which is listed on the SIX Swiss Exchange. The asset management team in Geneva provides management services for ENR, which specialises in the management of equities and equity-like investments as well as fixed-income instruments in Russia, the CIS states, and the Baltic states. In the coming years, ENR plans to make further selective investments to harness attractive opportunities.

Thanks to ENR's market expertise in private equity – i. e. investing in unlisted companies by taking a private stake in the company –, our private and institutional clients can also gain access to corresponding investment opportunities in the Russian and Eastern European markets.

REAL ESTATE FUNDS & INVESTMENT COMPANIES

In the real estate sector, Valartis Group combines the management of profitable commercial and residential properties with investments in promising development projects. It also handles the management of niche funds for institutional investors. With their know-how and broad network of contacts, Valartis Group's real estate experts provide focused support to our private clients in their search for specific investment vehicles in the real estate sector.

Private equity real estate in Germany

The two real estate funds for institutional investors enjoyed another exceptionally successful year in 2013:

- As part of the exit strategy set out in the fund's articles of association – and in keeping with the guidance given to shareholders last year –, MCT Berlin Residential SCA successfully placed all its remaining properties with various buyers at exceptionally attractive prices. The transaction amount totalled just under EUR 229 million, thus once again clearly exceeding the average estimated values of the properties sold by around 15 per cent. The net asset value increased by more than 11 per cent year-on-year.
- In accordance with the sales contracts, the transactions will be completed in the first half of 2014. The company MCT Berlin Residential SCA will thereafter be liquidated as planned. The total performance generated for shareholders over the lifetime of the fund is estimated at around 17 per cent.
- With an annual rental income of some EUR 1.8 million, the Valartis German Residential Health Care SICAV fund also fared well and continues to perform in line with expectations. The fund has invested about EUR 25 million in three high-quality German assisted care facilities and is therefore benefiting from the ongoing demographic changes in society. The shareholders once again enjoyed an annual distribution of 6.5 per cent.

Shopping centres in North Africa

Valartis Group AG has an investment in Algeria's first shopping mall via the Société des Centres Commerciaux Algérie SPA (SCCA), in which the Group holds a stake of about 37 per cent. The 100,000 square meter complex opened in 2010, and includes a shopping and leisure center with about 100 shops and restaurants, as well as a modern business center. There was a positive trend in 2013, with the number of visitors totalling 400,000, and it can be assumed that the key milestones in 2014 will be achieved. New tenants are expected for the business center in 2014. Accordingly, the sales and marketing activities are being focused on ensuring the optimal rental of the leasable space.

CORPORATE CENTER

The Corporate Center is a service organisation that supports Group Executive Management in managing the Group. It includes those units that assume Group-wide responsibilities and provide Group-wide services: Group Finance & Accounting, Risk Management & Risk Controlling, Legal & Compliance, and Corporate Communications & Marketing. The Corporate Center also includes logistics and IT in Switzerland whose services are offered to the Group as a whole. These responsibilities and services increase in complexity and scope with each passing year, which has led to a further significant rise in the general requirements for the Corporate Center in the year under review.

In 2013 the Corporate Center (continued and discontinued operations) employed 42 people (2012: 43).

Income and expenses that have no direct link with the two operational business segments are assigned to Corporate Center, as are consolidation items. Treasury services and, after deduction of a risk-free return from the investment of client funds on behalf of the front organisations, the income from balance sheet and capital management are also attributed to the Corporate Center. Head of the Corporate Center is George M. Isliker, Chief Financial and Chief Risk Officer (CFO/CRO).

Selected activities

During the reporting period, Valartis Group's service organisation was primarily involved in three activities:

- Implementation of new national and international regulatory and statutory requirements
- Implementation of new requirements based on the planned sale or merger of the Swiss bank in the planning cycles of the financial management regime
- Further strengthening of the internal control systems

The implementation of new regulatory and statutory requirements includes the risk management calibrations under Basel III and the new liquidity management requirements, as well as in-depth analysis in connection with the so-called "US program" which was negotiated between Switzerland, and the US with a view to settling the tax dispute. Following this analysis, the Board of Directors of Valartis Bank AG, Switzerland decided not to participate in the US programme as a Category 2 bank. In accordance with the provisions of the US programme and in compliance with the respective deadline, the bank will decide at a later stage whether to register under Category 3 (requesting a non-target letter) or refrain from participation. Additionally, processes and systems required to handle European final withholding taxes were introduced, and work on implementing the US Foreign Account Tax Compliance Act (FATCA) continued with a view to ensuring that approximately 40 Valartis Group companies and 50 Valartis products can be registered according to their status by 25 April 2014. Finally, the adjustments necessary to comply with new Swiss corporate legislation (the "Minder Initiative") were undertaken at Group level. The further expansion of internal audit, the construction of a new risk cockpit, and further standardisation of the systematic capture and reporting of Group-wide operational risk at additional Group companies further increased the effectiveness of the monitoring processes while at the same time ensuring compliance with legal requirements.

SEGMENT KEY FIGURES

In CHF 1,000	2013	2012
Operating income	10,385	1,163
Income from interest and dividend	4,317	2,707
Income from commission and service fee	-390	-505
Income from trading	142	-4,229
Other ordinary income	4,155	1,156
Administrative expense	-5,681	-4'831
Personnel expense	-3,192	-2,816
General expense	-2,489	-2,015
Services from/to other segments	2,161	2,034
Gross operating profit	4,704	-3,668
Employees, as full-time equivalents (FTE)	12	43

* continued operations, 2012 and 2013 on a comparable basis.
Additional details on the segment reporting is available in Note 44 in the Information on the Consolidated Financial Statements.

Segment key figures Corporate Center

Segment reporting is dictated by the technical requirements of IFRS 5 (separation of continuing and discontinued operations). The planned divestment of the Swiss bank removes a unit from the Group which effectively acted as its head office, not just in terms of the tasks performed and services provided, but also with regard to intercompany financing and the placement of collateralised interbank investments. Accordingly the technical reporting of the segment result for the Corporate Center is correct, but does not reflect the economic reality for the service organisation in 2013. For example, interest on intercompany financing is allocated to continuing operations (technically correct) and not to discontinued operations (which would be correct from an economic perspective).

Outlook

On the basis of the information available today, the Board of Directors of Valartis Group AG believes that it will find the best possible solution for the wholly owned subsidiary Valartis Bank AG, Switzerland, during the course of 2014. Accordingly the requirements of International Financial Standards (IFRS) concerning continued and discontinued operations apply. The activities of Valartis Bank AG, Switzerland, are allocated to discontinued operations. In the past, this discontinued operation acted as a head office, performing the tasks and providing the services of a corporate center. Going forward, the Group will realign its service organisation and Group structure to reflect the new circumstances, requirements and service structure, and will swiftly transfer the existing organisation and infrastructure into a new one.

CORPORATE GOVERNANCE

Today and tomorrow

MEET HIGH STANDARDS

CORPORATE GOVERNANCE

A robust corporate governance is key to ensuring the commercial success of Valartis Group. Therefore, it rigorously implements recognised standards and works to ensure that the core values laid down in its Code of Conduct – such as integrity, respect and fairness, transparent communication, and responsibility – are actively practised throughout the enterprise. Valartis Group views all stakeholder groups, such as shareholders, clients, employees and media representatives, as equal partners and treats them accordingly (see also the section on corporate sustainability on page 26 ff.).

The Valartis Group corporate governance guidelines clearly define and achieve a balanced distribution of the roles, competences and areas of responsibility of management and supervisory bodies, and adherence to them is controlled accordingly.

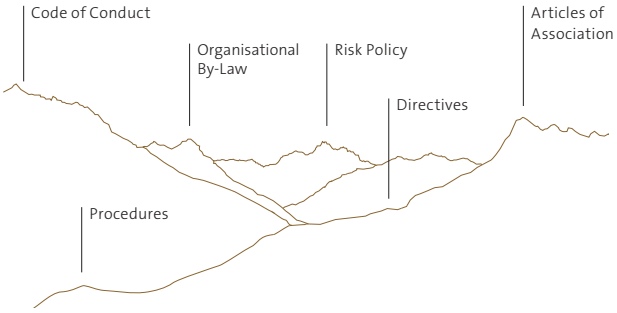
Valartis Group AG is listed on the Swiss stock exchange, SIX Swiss Exchange. Accordingly, it is subject to the rules and regulations laid down by SIX Exchange Regulation. Valartis Group's management principles meet all the requirements of the revised "Directive on Information Relating to Corporate Governance (DCG)" and the provisions of the Swiss Code of Obligations (OR) that are relevant to us. Furthermore, our corporate governance is also based on the recommendations of the economiesuisse "Swiss Code of Best Practice for Corporate Governance". Unless otherwise indicated, all information herein is provided as of 31 December 2013.

CORPORATE STRUCTURE AND SHAREHOLDERS

Corporate structure

Valartis Group AG is a public limited company under Swiss law which has its registered office in Baar, canton of Zug (Switzerland). The bearer shares of Valartis Group AG (ISIN CH0001840450) are traded on the Swiss stock exchange, SIX Swiss Exchange. The market capitalisation of Valartis Group as of 31 December 2013 was CHF 88.5 million. This corresponds to CHF 17.70 per issued share. 406,040 shares or 8.1 per cent of the total of 5,000,000 issued shares of Valartis Group AG were held at this date by Group entities.

The organisational chart on page 19 shows the Group's operating structure and reflects the way in which Valartis Group is structured by business segment. The Group's business activities take place within the "Private Clients" and "Institutional Clients" business segments. All back-office tasks are performed by the Corporate Center. The segment reports, with notes, segment results, and further information, can be found in Note 44.



CORPORATE GOVERNANCE

Consolidation

The Group companies and the major equity participations that are consolidated under Valartis Group (scope of consolidation of Valartis Group) are listed in Note 44 to the Consolidated Financial Statements, detailing names, domiciles, corporate purposes, share capital, and the participation, capital and share of the voting rights. Associated companies are listed and described in Note 46 to the Consolidated Financial Statements.

The following major equity participation included in the scope of consolidation is listed on the SIX Swiss Exchange:
ENR Russia Invest SA, Geneva (Switzerland), ISIN CH0034476959

Major shareholders

MCG Holding SA, Baar, canton of Zug (Switzerland), directly holds 50.2 per cent of the capital and voting rights of Valartis Group AG. The beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva (Switzerland), Philipp LeibundGut, Zurich (Switzerland), Pierre Michel Houmard, Geneva (Switzerland), and Tudor Private Portfolio LLC, Greenwich (USA). In addition, INTEGRAL Stiftung für die berufliche Vorsorge, Thusis, canton of Graubünden (Switzerland), holds 5.1 per cent of the capital and voting rights of Valartis Group and Kreissparkasse Biberach, Biberach (Germany), 3.0 per cent. There are no other known shareholders with participating interests greater than 3.0 per cent of the voting shares. Further information on the shareholder structure can be found on page 186. There are no shareholder agreements in place.

Cross-shareholdings

There are no cross-shareholdings of capital or voting rights 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 1.00 each. All bearer shares of Valartis Group AG are fully paid in and traded on the main segment of the SIX Swiss Exchange. As at 31 December 2013, there are no financial instruments outstanding that could result in dilution.

Recording in the share register

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

Conditional capital

Valartis Group AG has no conditional capital.

Authorised capital

Valartis Group has no authorised capital.

Capital changes

The share capital of Valartis Group AG remained unchanged in financial year 2013. Changes in equity capital as a whole are listed in the table Consolidated Statement of Changes in Equity on page 86.

Participation certificates

Valartis Group AG has no participation certificates.

Limitation of transferability and nominee registrations

There are no registered shares. As a result, there are no limitations on transferability or regarding nominees.

Convertible bonds and options

Valartis Group AG has not issued any convertible bonds.

BOARD OF DIRECTORS

Members of the Board of Directors*

Name	Function	Nationality	Elected until	First elected
Urs Maurer-Lambrou	Chairman	Swiss	2014*	2011**
Rolf Müller-Senn	Vice-Chairman***	Swiss	2014	2011
Jean-François Ducrest	Member***	Swiss	2014	2008
Christoph N. Meister	Member***	Swiss	2014	2011
Felix Fischer	Member	Swiss	2014	2013

* The amendment to the Articles of Association approved by the Shareholders' Meeting on 14 May 2013, providing for a term of office of one year for members of the Board of Directors, was retrospectively approved by the Swiss Financial Market Supervisory Authority (FINMA).
** Chairman of the Board of Directors in 2013
*** Member of the Audit Committee

BOARD OF DIRECTORS

The Board of Directors of Valartis Group consists of five members. 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 – banks" of the Swiss Financial Market Supervisory Authority (FINMA). Thus, none of the five members of the Board of Directors held a position on the Executive Management of a Valartis Group company in 2013. Although Jean-François Ducrest and Urs Maurer-Lambrou occasionally work for companies of Valartis Group in their capacities as lawyers, these activities do not conflict with their roles as independent members of the Board of Directors.

Urs Maurer-Lambrou, born 1960

Attorney-at-law, LL.M. from Duke University (Durham, USA) and attorney-at-law in Switzerland/New York, USA. Urs Maurer-Lambrou has been Chairman of the Board of Valartis Group since 14 May 2013 and a member of the Board since 2011. He is also Chairman of the Board of Valartis Bank AG, Switzerland, and Valartis Bank (Liechtenstein) AG, as well as Chairman of the Supervisory Board of Valartis Bank (Austria) AG and Chairman of the Board of ENR Russia Invest SA. Urs Maurer-Lambrou is an expert in the fields of M&A, corporate and securities law, and IT. Urs Maurer-Lambrou is also member of the Zurich and Swiss Bar Association, the New York State Bar, USA, the VQF, Zug (society for the quality assurance of financial services), member of the management board of the Deutsche Gesellschaft für Informationsfreiheit e.V., Berlin, and the Efficiency Club Zurich, section «ERFA XII Kommunikation».

Rolf Müller-Senn, born 1955

Banking professional. Vice-Chairman of the Board of Directors since 14 May 2013 and member of the Audit Committee of Valartis Group; member of the Board of Directors of Valartis Bank AG, Switzerland, Valartis Bank (Liechtenstein) AG and of the Supervisory Board of Valartis Bank (Austria) AG. Until the beginning of 2011, Rolf Müller-Senn was Managing Director at Bank Vontobel, with responsibility for the integration of Commerzbank Switzerland. From 2004 to 2009, he was CEO of Commerzbank (Switzerland) AG in Zurich, prior to which he held senior positions with Bank von Ernst & Cie AG and Lloyds Bank International.

Christoph N. Meister, born 1953

Business economist HWV and Swiss certified auditor; former partner at Ernst & Young AG, Switzerland. Christoph N. Meister has since 2011 been a member of the Board of Directors and Chairman of the Audit Committee of Valartis Group, and a member of the Board of Directors of Valartis Bank AG, Switzerland, and of Valartis Bank (Liechtenstein) AG, and a member of the Supervisory Board of Valartis Bank (Austria) AG. From January 1979 to November 2010 (as a partner with effect from April 1993), Christoph N. Meister held various positions in the auditing profession, above all in the banking and finance sector, as a lead auditor recognised by Swiss Financial Market Supervisory Authority (FINMA) and the Financial Market Authority Liechtenstein (FMA).

Jean-François Ducrest, born 1958

Lic. iur. University of Fribourg, LL. M. from Duke University (Durham, USA) and attorney-at-law. Jean-François Ducrest has been a member of the Board of Directors of Valartis Group and a member of the Audit Committee since 2008. He has been a partner with the law firm Ducrest Heggli Avocats LLC since 2010. From 2003 to 2010, he was a partner with the law firm Borel & Barbey in Geneva, and before that he worked for Paul Weiss Rifkind Wharton & Garrison in New York, among others. Jean-François Ducrest is a member of the Geneva Bar Association and has sat on its Executive Board since 2004 (as Chairman from 2008 to 2010).

Felix Fischer, born 1949

Banking professional. Member of the Board of Directors of Valartis Group since 14 May 2013. From 1965 to 1999, Felix Fischer worked in various functions at UBS, and was a member of the Group Executive Board from 1996. From 2000 to 2002, he was CFO and a member of the Executive Board of PSP Swiss Property Group. He has been an independent consultant since 2003 and a consultant to the Swiss Capital Group Global Property Fund since 2008. From 1997 to 2010, Felix Fischer was also a member of the Swiss GAAP ARR expert commission.

Changes to the Board of Directors

After ten years as a member of the Board of Directors and Chairman of the Board of Directors of Valartis Group AG, Prof. Dr. Erwin Heri did not stand for re-election at the Ordinary General Assembly on 14 May 2013.

At the constituent meeting of the Board of Directors on 14 May 2013, Urs Maurer-Lambrou was appointed as the new Chairman and Rolf Müller-Senn as the new Vice-Chairman of the Board of Directors of Valartis Group. Felix Fischer was elected as a new member of the Board of Directors of Valartis Group.

Amendment to the Articles of Association

At the Shareholders' Meeting on 14 May 2013, a motion was adopted limiting the term of office of members of the Board of Directors to one year. This was subsequently approved by Swiss Financial Market Supervisory Authority (FINMA).

Each member is elected individually. Members are eligible for re-election. In the event that a member withdraws before the end of his or 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 to conduct additional elections. The member elected as a replacement completes the term of office of his or her predecessor. The date of a member's first election is 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, who needs not be a member of the Board.

Internal organisation

The Board of Directors is the highest governing body of Valartis Group AG. It is responsible to the shareholders for the Group's overall management and decides on all matters that are not delegated to the Shareholders' Meeting by law or under the Articles of Association. One of the most important non-transferable tasks is risk management. For a detailed description of this, please refer to the Risk Management section on page 74 ff.

With the exception of non-transferable and inalienable duties, 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. There were no subcommittees with the exception of the Audit Committee in financial year 2013.

The Board of Directors conducts a regular self-assessment of its activities.

Exclusive duties of the Board of Directors

In addition to the non-transferable and inalienable duties (Article 716a para. 1 Swiss Code of Obligation (OR)), the Board of Directors has additional exclusive duties. The most important of these include defining the Group's goals and strategy, as well as the financial planning. The Board of Directors also decides on the HR and remuneration policy, determines the risk policy and implements control systems for review and consolidated risk monitoring. It approves the three-year medium-term plan, the annual operating budget, and the risk bearing capacity calculation, the risk capital reserves, especially the going concern reserve which is defined as difference between the risk bearing mass and the comprehensive risk capital limit. In addition to the comprehensive rsik capital limit the Board of Directors has to approve the limit for the general interest rate risk.

The Board of Directors must approve entry into or termination of strategic partnerships with third parties, acquisition and disposal of strategic participations, as well as the establishment, acquisition, and sale of Group companies or substantial parts of such, including subsidiaries.

The Board of Directors is convened by the Chairman or, if he or 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 vote of members present. In the event of a tie, the Chairman has the casting vote. The minutes of the meetings of the Board of Directors are kept and must be signed by the secretary of the Board of Directors and the Chairman.

Assignment of authority

The Board of Directors is charged with the overall management, supervision, and control of the Group's operations. It performs the duties incumbent upon it in accordance with the law, Articles of Association, and internal regulations, except where these duties have been delegated to other bodies. In addition to the duties set out in the Articles of Association, the Board of Directors is responsible for the following non-transferable tasks and duties in particular:

- Defining and conducting periodic reviews of the medium- to long-term corporate objectives (strategy) and determining the resources needed to achieve these objectives
- Approving the annual budget planning
- Appointing committee members from its members
- Appointing members of Group Executive Management
- Appointing the head of Internal Audit
- Examining and approving reports compiled by internal and external audit teams, as well as special reports related to supervisory law
- Thoroughly acquainting oneself with business performance and special events, particularly regarding the income situation, the balance sheet, liquidity, capital adequacy requirements, and the risk position
- Ensuring measures are taken promptly and informing the authorities accordingly

– Drawing up guidelines or regulations regarding features of risk management, as well as regarding the responsibility and procedure for authorising all business transactions that entail some risk
– Taking decisions concerning the acquisition or sale of equity participations in other companies and the founding or liquidation of subsidiaries
– Taking decisions concerning setting up and closing companies, branch offices, and representative offices
– Stipulating lending powers and passing resolutions on major exposures (including cluster risks) and loans to members of management bodies
– Setting Group, overall position and individual limits
– Approving the annual report and proposing agenda items to the Shareholders' Meeting
– Passing resolutions on all other proposed agenda items to be discussed at the Shareholders' Meeting
– Determining pay for members of the Group Executive Management
– Approval of employees assuming other professional commitments.

Information and control instruments

A variety of information and control instruments are available to the Board of Directors and its Audit Committee in order to assure overall management and supervision of Group Executive Management. Such instruments include the strategy process, medium-term plan, budgeting process, and financial reporting. The members of the Board of Directors receive a reporting package on a monthly basis, in particular management and controlling reports, risk reports, and periodic financial results (consolidated and individual financial statements on a quarterly, semi-annual, and annual basis). These include quantitative and qualitative information, such as budget deviations, benchmark comparisons, prior-period and multi-year comparisons, key performance indicators, and risk analyses for the Group companies and the Group as a whole. These reports enable the Board of Directors to keep abreast of major developments and the risk situation within Valartis Group at all times. Reports falling under the responsibility of the Audit Committee are discussed by the Committee and forwarded to the Board of Directors with a request for approval. The recent reports are discussed in depth at each meeting of the Board of Directors. The Chairman of the Board of Directors also receives minutes of all meetings of Group Executive Management and regularly exchanges information with the Group CEO and the other members of Group Executive Management.

The Board of Directors meets as often as the business of the Company requires, but at least once per quarter. Six ordinary meetings were held in 2013. These meetings were also attended by the Group CEO and Group Chief Financial Officer/Chief Risk Officer as well as other individuals, where required.

Audit Committee

The Audit Committee consists of three Board members. The Chairman is Christoph N. Meister, and Jean-François Ducrest and Rolf Müller-Senn are the other two members. The members have experience in finance, accounting, risk management, and internal control systems by virtue of their professional backgrounds. The term of office is the same as the term of office for a member of the Board of Directors; re-election is possible.

The purpose of the Audit Committee is above all to support the Board of Directors in the fulfilment of the duties assigned to it by law and under the Articles of Association and regulations, by preparing resolutions and consulting, mainly in connection with:
– Supervision and control, specifically with regard to compliance with laws, the Articles of Association, regulations, and directives
– Implementation of the financial and risk policies as well as appropriate financial and risk management
– Internal and external auditing and the internal control system (ICS)
– Analysis of the annual and interim financial statements for Valartis Group and Valartis Group AG.

The duties of the Audit Committee are defined in detail in a separate regulation. Five meetings were held in 2013.

Group Internal Audit

A further important instrument for the Board of Directors' performance of its supervision and control function is Group Internal Audit, which consists of seven team members at the three locations in Switzerland, Austria, and Liechtenstein. Group companies without their own internal audit units have transferred this task to Group Internal Audit. The purpose, authority, and responsibility of Internal Audit are defined in a separate policy, and the internal auditors work in accordance with local versions of the international standards of the Institute of Internal Auditors (IIA). Acting independently, Internal Audit audits in particular the internal steering and control system, governance, and risk management.

Group Internal Audit ensures that all risk-relevant business activities are covered by a multi-year plan and defines a risk-based annual audit programme. The Chairman of the Board of Directors may also assign special tasks in addition to the standard auditing work to Group Internal Audit. The efficiency of Group Internal Audit is enhanced by coordinating its activities with those of the external auditor.

Group Compliance

The term compliance covers adherence to statutory, regulatory, and internal requirements as well as observance of codes of conduct and market standards.

Compliance risk is the risk of breaches of regulations, code of conduct and standards, with the potential of legal and regulatory sanctions, financial losses, or reputational damage that these may entail.

Employees of Valartis Group are obliged to comply with all statutory, regulatory, and internal requirements. They are supported in this task by Group Compliance. The Group Compliance function is independent of the income-earning activities of the Group. The responsibilities and principles of Group Compliance are defined in detail in a separate regulation, with which all Group companies must comply. Special directives are in place at each of the Valartis banks to cover cross-border issues.

In addition to systematic employee training and issuing detailed directives, emphasis is also placed on effective control and monitoring instruments. The Board of Directors is responsible for the supervision and control of Compliance. The Board of Directors reports at least once a year on whether the compliance principles that are applicable to it and to the Group are adequately understood and implemented. In this context it relies on the compliance reports that it receives quarterly as well as the annual overall report from Group Compliance.

GROUP EXECUTIVE MANAGEMENT

Members of Group Executive Management

Name	Function	Nationality
Gustav Stenbolt	Chief Executive Officer (CEO)	Norwegian
Vincenzo Di Pierri	Deputy Group CEO and CEO of Valartis Bank AG, Switzerland	Swiss and Italian
George M. Isliker	Group Chief Financial Officer and Chief Risk Officer (CFO/CRO)	Swiss
Monika Jung*	CEO of Valartis Bank (Austria) AG	Austrian
Dr. Andreas Insam*	CEO of Valartis Bank (Liechtenstein) AG	Austrian

* until 9 April 2014, see also section "realignment of Group Executive Management for the transformation phase" in the following.

Organisation of Group Executive Management

Group Executive Management is responsible for the management of Valartis Group's business activities, except for those duties incumbent upon the Board of Directors by law or under the Articles of Association or the organisational by-law. The Group CEO heads Group Executive Management, which decides on business development. Specifically, Group Executive Management is responsible for the development and implementation of the Group's strategy and its results. The Group CEO is responsible for overall management and comprehensive coordination. The members of Group Executive Management meet at least once a month. Further meetings on strategy, corporate development, annual planning, budgeting, and other topical issues also take place.

Realignment of Group Executive Management for the transformation phase

In the course of its 2013 strategic realignment, Valartis Group is re-affirming its focus on the future with a newly streamlined group management organisation. As of 9 April 2014, for the transformation phase and during the planned sale or merger, respectively of the Swiss Bank, the Group Executive Management will be as follows: Gustav Stenbolt, Group CEO, Vincenzo Di Pierri, Deputy Group CEO and CEO of Valartis Bank AG, Switzerland, and George M. Isliker, Group CFO and CRO. Following the successful spin-off of Valartis Bank AG, Switzerland during the course of 2014, Valartis Group will then align its group executive organisation in accordance to the new framework requirements.

Gustav Stenbolt, born 1957

Lic. rer. pol University of Fribourg. Chief Executive Officer of Valartis Group since 2007. Chairman of the Executive Board of Jelmoli Holding from 2004 to 2007. From 1996 to 2004, CEO and founder of the MCT group in Geneva. MCT merged with OZ Holding in 2005. The merged entity was renamed Valartis Group in 2007. From the period 1983 to 1996 CIO of Unifund for Asia, Latin America and Eastern Europe/CIS. Gustav Stenbolt is member of the Board of ENR Russia Invest SA, Eastern Property Holdings, and the Anglo Chinese Group, Hong Kong.

George Marc Isliker, born 1964

Certified Public Accountant (CPA), Trust and Estate Practitioner (TEP), studied law at the University of St. Gallen (HSG). Chief Financial Officer and Chief Risk Officer of Valartis Group since 2011. He was previously Head of Group Finance & Risk at VP Bank Group (Vaduz, Liechtenstein, 2004 to 2010). He took a sabbatical in 2003. Before that, George M. Isliker was Head of Finance and of the Credit Department at the Hottinger & Cie, Banquiers private banking group (Zurich, 1995 to 2002) and an auditor with KPMG (Zurich, 1992 to 1995).

Vincenzo Di Pierri, born 1950

Banking professional. Vincenzo Di Pierri has been CEO of Valartis Bank AG, Switzerland and Deputy Group CEO since 2012. He was CEO of the Zurich-based private bank Finter Bank from 2003 to 2011. Vincenzo Di Pierri's banking career spans forty years and started in 1974 when he began work as a forex trader at what is now Credit Suisse Switzerland. He then held various management positions at Credit Suisse and today's UBS between 1984 and 1998, prior to becoming a member of the Executive Board of HSBC Republic Bank Switzerland, where he was responsible for the private banking business in Zurich and Lugano. Vincenzo Di Pierri is also Chairman of the Italian Chamber of Commerce for Switzerland (CCIS) and in this capacity is involved in various binational bodies.

Andreas Insam, born 1957

Andreas Insam holds the qualification of Dr. rer. soc. oec. from the University of Innsbruck. He has been CEO of Valartis Bank (Liechtenstein) AG since it was founded in 1998. Prior to that, Andreas Insam worked at Vorarlberger Landes- und Hypothekenbank AG, Bregenz, where in 1998 he was charged with setting up Hypo Investment Bank (Liechtenstein) AG, Vaduz later Valartis Bank (Liechtenstein) AG). Before taking up his post at Vorarlberger Landes- und Hypothekenbank AG, he was a member of the Directorate of LGT Bank in Liechtenstein (Frankfurt) GmbH from 1985 to 1992, where he was responsible for the Institutional Sales division. Andreas Insam has been a lecturer and examiner for many years at the University of Liechtenstein and University of Innsbruck. He has been a Board member of the Liechtenstein Bankers Association since 2004.

Monika Jung, born 1965

Mag. rer. soc. oec. in Commerce and Master of Science (MSc) in Executive Management, Vienna University of Economics and Business. Monika Jung has been a member of the Executive Board at Valartis Bank (Austria) AG since 2010 and CEO of Valartis Bank (Austria) AG since February 2013. Prior to that, she headed the private banking operation at Raiffeisen Centrobank in Vienna (from 2000 to 2010), and private wealth management at Meinl Bank Vienna (from 1997 to 2000). From 1993 to 1997 Monika Jung held various management positions at Meinl Bank Vienna and Creditanstalt Vienna.

Management of Valartis Bank AG, Switzerland

Vincenzo Di Pierri

See information on the organisation of Group Executive Management.

Eric Berthelot, born 1961

Degree in Russian, Polish, and law from Paris University, MBA from HEC (France). Eric Berthelot has been a member of the Executive Committee and Deputy CEO since 2008 and is Head of Private Banking at Valartis Bank AG, Switzerland. He has also been a member of the Executive Board of Valartis Wealth Management SA since 2007. From 2002 to 2007 he was Managing Partner of the independent asset manager Valaxis Asset Management SA in Geneva, which was absorbed into Valartis Wealth Management SA. He was the manager responsible for Central European clients at Credit Agricole Indosuez (Switzerland) SA from 2000 to 2002. Eric Berthelot was co-founder and member of the Executive Board of EXANE, a Paris-based investment firm, from 1990 to 2000.

Daniel Reptsis, born 1971

Bachelor in Business Administration, graduate of the University of Applied Sciences in Business Administration Zurich (HWZ). As Chief Financial Officer and Chief Risk Officer (CFO/CRO) he has been responsible for Finance, Risk, Operations, and IT at Valartis Bank AG, Switzerland, since 2011. He is also an employer representative on the Valartis Group employee pension foundation. Daniel Reptsis has performed various tasks in a range of functions and positions at Valartis Bank AG, Switzerland, since 2000. He worked at BZ Bank AG from 1993 to 2000 as a securities trader.

Philipp LeibundGut, born 1973

Graduate of the University of Applied Sciences of Basel. He has been responsible for the Institutional Clients business segment and a member of the Executive Committee of the current Valartis Bank AG, Switzerland, since 2011. Philipp LeibundGut is a member of the Board of Directors of Valartis Asset Management SA. He was a member of the Executive Board of Valartis Asset Management SA from 2002 to 2006 and, from 2005 to 2011, a member of the Board of Directors of Valartis Group. Prior to that, Philipp LeibundGut was an investment advisor at Hansa AG in Baar, canton of Zug, from 1998 to 2001.

Marina Bottinelli, born 1965

Banking specialist. Marina Bottinelli joined the newly established Lugano branch of Valartis Bank AG, Switzerland, as Head of Private Banking, Lugano, in November 2012. Effective 1 January 2013 she was elected to the Executive Committee of Valartis Bank AG, Switzerland, and, in October 2013, to the Executive Committe of Valartis Wealth Management. Prior to that, she was Deputy General Manager and a member of the Executive Committee of FinterLife Life Insurance Company Ltd. in Liechtenstein, with responsibility for management, marketing & sales. From 2008 to 2010 she was Deputy Head of the Private Banking team at Banca Popolare di Sondrio (Suisse) SA, Lugano, with the rank of Director. From 1984 to 2007, Marina Bottinelli performed a variety of tasks in various functions and positions at UBS SA Lugano and UBS (Italia), SPA, Milano. From 2003 to 2007 she was a Relationship Manager with responsibility for wealth management and HNWI clients of UBS in Lugano and Milan.

Changes to the management

Effective 1 January 2013 Marina Bottinelli, Head of Private Banking, Lugano, was appointed to the Executive Committee of Valartis Bank AG, Switzerland. René Hermann, Head of Private Banking Zurich, left Valartis Bank AG, Switzerland, at the end of October 2013.

Management of Valartis Bank (Austria) AG

Monika Jung

See information on the organisation of Group Executive Management.

Andreas Rosenbaum, born 1962

Mag. rer. soc. oec. in Commerce, Vienna University of Economics and Business. Andreas Rosenbaum joined the Executive Committee of Valartis Bank (Austria) AG on 1 May 2013. After university, he began his career in asset allocation/portfolio management at VPM Vermögensverwaltungs AG in 1989. After spending time abroad in 1996 – 1997 he took up a post as Compliance Officer and Controller in the securities department of what is now Raiffeisen Centrobank AG in 1997. Andreas Rosenbaum has been Head of Controlling & Risk Management since 2001.

Changes to the management

The Supervisory Board of Valartis Bank (Austria) AG appointed Monika Jung to the post of CEO with effect from 1 February 2013. In May 2013, Andreas Rosenbaum was appointed to the management committee as CFO.

Management der Valartis Bank (Liechtenstein) AG

Andreas Insam, CEO

See information on the organisation of Group Executive Management.

Gerhard Lackinger, born 1957

Dr iur. and Mag. rer. soc. oec., University of Innsbruck and Austrian certified public accountant. He has been a member of the Executive Board of Valartis Bank (Liechtenstein) AG since 2000 with responsibility for the back office, comprising the Accounting, Legal & Compliance, IT, Credit, Human Resources, and Facilities Management departments. Previously he was Head of the Executive Board Secretariat and Legal Department at Vorarlberger Landes- und Hypothekenbank AG, Bregenz. Gerhard Lackinger is also a long-standing speaker for and member of the Austrian Mortgage Banks' Audit Committee.

Management agreements

Valartis Group and its subsidiaries have not delegated any management tasks to third parties.

REMUNERATION, PARTICIPATIONS, AND LOANS

Information on the Valartis Group remuneration system and the remuneration of the members of the Board of Directors and Group Executive Management in financial year 2013 is provided in the Remuneration Report on page 70 ff. and in Note 42 to the Consolidated Financial Statements. Information on participating interests of and loans to members of the Board of Directors and Group Executive Management is provided in Note x 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 limitations on voting rights. Each bearer share gives entitlement to one vote at the Shareholders' Meeting of Valartis Group. A shareholder may exercise his/her voting right in person at the Shareholders' Meeting, appoint a third party representative, or request the independent shareholder proxy or official custody account representative to vote on their behalf.

Quora prescribed by the Articles of Association

There are no regulations that deviate from Article 704 of the Swiss Code of Obligations. Accordingly, no special quora prescribed by the Articles of Association have been defined.

Convening 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. The Shareholders' Meeting is convened by the Board of Directors at least 20 days before the day of the meeting; details of the agenda and proposals are given at the same time. The meeting is called by publishing a single notice in the company's official organ of publication. This publication is currently the Swiss Official Gazette of Commerce, the "Schweizerisches Handelsamtsblatt". An Extraordinary Shareholders' Meeting may also be called by one or more shareholders who together represent at least one tenth of the share capital. This must be done in writing and include details of the agenda and proposals.

Agenda

The Articles of Association provide that one or more shareholders who together represent at least three per cent 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.

CHANGE OF CONTROL AND DEFENSIVE MEASURES

Opting out

Under the Articles of Association, an acquirer of shares of the Company is not obliged to offer to acquire all the equity securities 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.

AUDITORS

The external audit mandate is performed by Ernst & Young AG, Zurich, Switzerland. The external auditors 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 in 1988. The current lead auditor is Patrick Schwaller, Swiss certified accountant, who has exercised this function since financial year 2009.

Auditor's fee

Ernst & Young AG charged Valartis Group CHF 1.7 million in financial year 2013 (2012: CHF 1.6 million) for services in connection with the regulatory audits and with auditing the annual financial statements and the consolidated financial statements of Valartis Group and the Valartis Group companies.

Additional fees

In addition, Ernst & Young AG invoiced Valartis Group CHF 0.2 million for other services in the areas of legal matters, tax, projects, and information technology (previous year: CHF 0.1 million).

Supervision and control instruments with regard to the auditors

Control of the external auditors and the Group auditor is the responsibility of the Board of Directors. This responsibility includes examining the reports by the internal and external auditors, and it is supported in this by the Audit Committee.

INFORMATION POLICY

All legal reporting obligations of Valartis Group are met through official Swiss publications, currently the Swiss Official Gazette of Commerce (Schweizerisches Handelsamtsblatt). Valartis Group provides shareholders and capital market participants with open, extensive, simultaneous, and prompt information. Its information policy is based on the principle of equal treatment of all capital market participants. As a company listed on the SIX Swiss Exchange, Valartis Group AG is subject in particular to the duty of immediately disclose price-relevant events (ad hoc publicity requirement).

Regular reporting includes annual and half-year reports, which are prepared according to International Financial Reporting Standards (IFRS), media releases on the latest developments, the annual press and analyst conference in April, and the Shareholders' Meeting in May.

In addition to the dispatch of media releases and reports by e-mail, hard copies of publications are available to all interested parties on request, and they can also be downloaded from www.valartisgroup.ch. The Articles of Association are published on the website.

2014 calendar

Annual results press and analyst conference	9 April 2014
2014 Shareholders' Meeting	13 May 2014
2014 half-year results	26 August 2014

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Valartis stock market information

Exchange listing:	SIX Swiss Exchange
Securities symbol:	VLRT
Reuters:	VLRT.S
Bloomberg:	VLRT SW
ISIN:	CH0001840450

www.valartisgroup.ch

REMUNERATION REPORT

The remuneration report of Valartis Group sets out the remuneration system for 2013, and comprises the following sections:
- Value-based remuneration system
- Content and process of determining remuneration and share participation programmes
- Board of Directors
- Group Executive Management
- Employees

Value-based remuneration system

Valartis Group is committed to fair, balanced and performance-oriented remuneration practices. In addition to excellent social benefits, it offers attractive and competitive basic salaries to the employees of its Group companies and binds its specialists to the company by means of a medium-term bonus system (please see also the information on corporate sustainability on page 28 f.).

Valartis Group,s value-based remuneration system is focused on the Group,s long-term business success. It ensures that the interests of shareholders are aligned with those of the employees by providing incentives that promote entrepreneurial thinking and action, and that strengthen the company as a whole. For example, management receives part of their variable performance-related component (bonus) exclusively in shares of Valartis Group AG – with a vesting period of three up to five years.

Content and process of determining remuneration and share participation programmes

The Board of Directors of Valartis Group AG has issued internal regulations on setting the remuneration of the members of the Board of Directors and Group Executive Management Committee, governing both decision-making powers and the remuneration system. These regulations are reviewed annually to ensure that they remain appropriate, and are adjusted if necessary.

The remuneration of each member of the Board of Directors and of Group Executive Management Committee is approved by the entire Board of Directors of Valartis Group AG. Each member of the Board of Directors abstains from voting on their own remuneration. The entire Board of Directors is responsible for the structure and definition of the remuneration system. There is no separate permanent compensation committee. Furthermore, no external consultants are active for the company in this regard.

Board of Directors

The members of the Board of Directors are paid a fixed remuneration for their activities, the level of this remuneration depending on their function and their contribution to the Group. No variable compensation component is envisaged for members of the Board of Directors. According to the remuneration regulations for the Board of Directors of Valartis Group AG, the entire remuneration

Remuneration of the Board of Directors*

Name/Function in CHF	Period	Basic compen-sation (net)	Compensation Audit Committee (net)	Compen-sation Switzerland netto	Compen-sation Liechtenstein (net)	Compen-sation Austria (net)	Compensation Valartis Wealth Management AG	Special payment (net)	Total (net)
Urs Maurer-Lambrou, Chairman [1]	until 2013**	80,000	–	–	–	–	–	40,000	120,000
	from 2013***	380,000	–	–	–	–	–	–	380,000
Rolf Müller, Vice-Chairman [2]	until 2013**	80,000	25,000	–	25,000	25,000	–	40,000	195,000
	from 2013***	55,000	25,000	25,000	25,000	25,000	10,000	–	165,000
Christoph N. Meister, Member	until 2013**	80,000	30,000	–	25,000	25,000	–	40,000	200,000
	from 2013***	40,000	35,000	25,000	25,000	25,000	10,000		160,000
Jean-François Ducrest, Member [3]	until 2013**	90,000	25,000	–	–	–	–	40,000	155,000
	from 2013***	40,000	25,000	25,000	–	–	20,000		110,000
Felix Fischer, Member [4]	from 2013***	40,000	–	–	–	–	–	–	40,000
Erwin W. Heri [5]	until 2013**	350,000	–	–	75,000	75,000	–	40,000	540,000
Total remuneration until General Meeting 2013									**1'210'000**
Total remuneration from General Meeting 2013									**855,000**

* The table shows the compensation model for the Board of Directors. Note 42 of the Notes to the Consolidated Financial Statements shows the actual compensation paid, based on this model, during calendar year 2013. Due to differing time periods, a direct comparison is not possible.
** until General Meeting 2013;
*** from General Meeting 2013
1) Chairman since 14 May 2013.
2) Vice-Chairman since 14 May 2013.
3) Vice-Chairman until 14 May 2013.
4) Member since 14 May 2013
5) Chairman until 14 May 2013. The former Chairman was paid a remuneration of CHF 270,000 for his consulting services ref strategic asset allocation that is not listed because it concerned a consultancy services after the withdrawal from the Board (please refer to note 42).

is in principle paid out in cash. There is no requirement to subscribe shares of Valartis Group AG. However, each member of the Board of Directors has the option of taking all or part of their remuneration in the form of shares.

Starting in 2013, the fees of the members of the Board of Directors are set for the period from one General Meeting of Shareholders to the next General Meeting of Shareholders. There are therefore two lines for each member of the Board of Directors in the table below:

The fees paid to the Board of Directors in the calendar year 2013 are listed in the Notes to the Consolidated Financial Statements under Note 42. Information on the loans, equity holdings, and option holdings is disclosed in Note 43.

Group Executive Management

The remuneration policy in respect of Group Executive Management Committee is determined by the Board of Directors based on Art. 3.9 (b) of the company,s organisational regulations. The information contained in this policy complies with the guidelines of the SIX Swiss Exchange concerning information on the remuneration of members of executive management. The entire Board of Directors of the company approves the remuneration of the Group CEO based on the recommendation of the Chairman and Vice-Chairman of the Board of Directors, and also approves the remuneration for members of Group Executive Management Committee based on the recommendation of the Chairman of the Board of Directors and the Group CEO.

The structure of the remuneration system for Group Executive Management Committee is based on the following key elements:
- The remuneration system provides incentives that promote entrepreneurial thinking and action and strengthen the company as a whole.
- The total remuneration as a rule includes a fixed and a variable component.
- The variable remuneration component is dependent to an appropriate degree on individual performance, the results of the business segment, and the success of the company as a whole.
- The assessment basis of the variable remuneration component comprises both directly measurable and non-measurable criteria.
- The variable remuneration is paid to a significant extent in the form of company shares.
- The payment of a significant part of the variable remuneration is made dependent on the future success of the company. Appropriate consideration is given to the risks taken on.
- Severance payments on termination of employment are not permitted.

Remuneration is defined in accordance with the following factors:
- Remuneration of the members of Group Executive Management Committee consists of a fixed basic salary and a performance-related remuneration.
- The basic salary depends on the tasks and functional responsibilities of the individual member in question.
- The performance-related remuneration is determined on the basis of the following elements:
  - Group operating profit
  - Business segment operating profit
  - Individual personal contribution

The following table provides guidance as to the weightings of the individual components. The sum of all the components is 100 per cent:

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

In determining the individual components, due consideration is also given to the shareholders, capital interests (return on equity, impact of market fluctuations on the results, etc.). Individual personal contributions include measurable factors such as a quantitative improvement in results or delivery of projects ontime and within budget, as well as qualitative factors such as personnel management, leading by example, and commitment to the Group as a whole (this is not an exhaustive list).

To focus the entrepreneurial thinking and action of the members of Group Executive Management Committee on sustainably strengthening Valartis Group,s earnings power, performance-related remuneration in excess of CHF 50,000 is paid subject to the following conditions:
- 50 per cent of the total bonus is paid out immediately in cash (i. e. if the total bonus is CHF 50,000, CHF 25,000 is paid directly in cash).
- A further 25 per cent (CHF 12,500 if the total bonus is CHF 50,000) is allotted in the form of shares in the company, which vest to the eligible party after one year. These shares are blocked for two years.
- The remaining 25 per cent of the bonus (CHF 12,500 if the total bonus is CHF 50,000) – again in the form of company shares – vests after three years.

Depending on the performance of Valartis Group in this period, this portion of the bonus (number of shares initially allocated) may double at most (for example, a maximum of CHF 50,000 in the form of shares if the total bonus is CHF 50,000). The basis for the measurement of performance, beginning at the start of 2014, is the average return on equity achieved over those three years and the average tier 1 capital ratio measured over the same period. Financial information on the participation programmes can be found in Note 11 of the Annual Report.

As regards the vesting of the shares – 50 per cent of the bonus as set out on page 71 – the basic principle is that to be eligible, a member of Group Executive Management Committee must not have given notice on their employment contract with Valartis Group, or must leave the Group as a «good leaver».

Due to the dependence on business performance and individual performance contributions, the total remuneration of a member of Group Executive Management Committee may vary considerably from year to year. Accordingly, the corresponding proportions of the fixed and variable remuneration also fluctuate strongly.

The table below shows the net remuneration of the members of Group Executive Management (including social security contributions). Please note that in accordance with the remuneration regulations, part of the bonus awarded to members of Group Executive Management Committee is paid in the form of shares, spread over three years.

Net remuneration in CHF	Basic remuneration	Bonus*	Total 2013
Gustav Stenbolt, Group CEO	666,900	350,00	1,016,900
Other members of Group Executive Management Committee	1,701,300	476,400	2,177,700
Total Group Executive Management Committee	2,368,200	826,400	3,194,600

* see page 71, part of the bonus is allotted in the form of shares, which vest after one to three years.

More information on the remuneration of members of Group Executive Management, as well as loans, equity holdings, and option holdings, may be found in Notes 42 and 43 to the Consolidated Financial Statements.

Local practices and regulations are adhered to when implementing this policy outside Switzerland. Doing so may result in different models having to be used for members of Group Executive Management Committee in Liechtenstein and Austria.

Employees

The remuneration model as set out for Group Executive Management also applies in principle to all employees in Switzerland. The Group CEO determines the aggregate bonus payment for a business segment based on the total bonus amount made available by the Board of Directors. The head of a given business segment determines the bonus payments of employees working in this segment in conjunction with the Group CEO.

The following table provides guidance as to the weightings of the individual components (the rules are different from those applicable to Group Executive Management). The sum of all the components is 100 per cent:

Function/component	Front-office units	Service organisation units
(a) Group operating profit	10%	10%
(b) Business segment operating profit	30%	0%*
(c) Individual personal contribution	60%	90%

* To comply with the statutory requirements, company earnings are not included in calculating the bonus for service organisation units. Any bonus participation received by these functions is based on the above criteria.

Further financial information concerning salaries, bonuses, social security benefits, pensions, and employee participation programmes may be found in the Consolidated Financial Statements in Notes 5, 11 and 12.

RISK MANAGEMENT

ORGANISATION

The Board of Directors has the final responsibility for the overall risk management of Valartis Group. The Board defines both the risk policy and risk strategy and monitors their implementation. It is responsible for determining the annual risk budget, setting certain limits and the maximum risk tolerance (quantitative and qualitative) in relation to the Group's overall risk capacity. The Audit Committee oversees controls relating to corporate governance and the internal control system, including financial management and income and risk controlling.

The Group Executive Management is responsible for implementing the risk principles as well as the risk budget approved by the Board of Directors. Within the Group companies, the Executive Management is responsible for compliance with the risk principles and the mandated limits for the operative business areas.

The Group Investment Committee is made up of members of the Group Executive Management. It is responsible for overall risk management and for the implementation of the risk principles in line with the investment policy for the Group's own financial investments. Group Risk Management actively manages financial risks at Group level.

At the local level, the Asset & Liability Committees (ALCOs) and the Credit Committees are responsible for implementing the risk principles with respect to securing and investing liquidity and for actively managing and controlling the respective loan portfolios.

Group Risk Controlling monitors compliance with the risk policy, risk principles and annual risk budget drawn up by the Board of Directors. Group Legal & Compliance ensures general compliance with the law. These departments report directly to the Group Chief Financial Officer/Chief Risk Officer (CFO/CRO), and their reporting is integral to the monthly meetings of Valartis Group Executive Management.

The strengthening of Group-wide risk management initiated in previous years was rigorously continued in 2013. The focus was on increasing headcount as well as optimising central risk management systems and databases tailored to Valartis Group's needs. These are a cost-effective way to create the infrastructure for quickly identifying current risks and trends and thus steering risks on an ongoing basis as well as producing meaningful and up-to-date reporting.

Group Risk Controlling further enhanced the processes for minimising operational risks in 2013. The Group-wide standards introduced in the local entities in 2012 were refined and expanded. These risks will remain very important for Valartis Group going forward, and the Group will continue to use appropriate systems and processes to identify and reduce potential losses at the consolidated level.

OVERVIEW OF RISK PROFILE

The business strategy introduced in 2008 is focused on wealth management, and this is now reflected substantively in Valartis Group's risk profile. The risk structure is thus essentially split into the traditional areas of interbank placements, lending and, to a lesser extent, the bond portfolio.

The Board of Directors of Valartis Group currently expects to conclude the planned sale or merger, respectively of Valartis Bank AG, Schweiz during the course of 2014. For that reason, the provisions of the International Financial Reporting Standards (IFRS) for continued and discontinued operations (IFRS 5) apply for the 2013 annual statements.

In light of these distinctive changes, the figures are not comparable with the figures for 2012. Hence both the interbank placements and the lending business are shown without Valartis Bank AG, Switzerland, so as to ensure comparability with the previous year's figures.

INTERBANK PLACEMENTS

Although media attention is no longer concentrated solely on the risks inherent in the complex interdependencies of the financial system, Valartis Group stills views these as highly significant. With this in mind, Valartis Group maintains high standards, for example in terms of the creditworthiness of its counterparties in the interbank business.

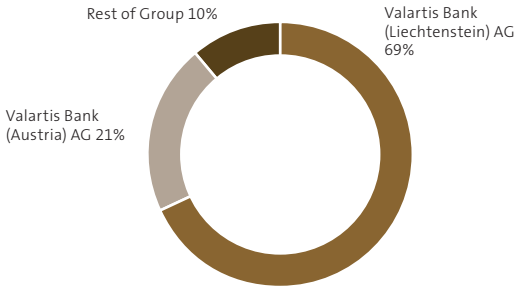
The Group's interbank placements are thus secured or placed with banks that have an external rating of A or higher. Exceptions are individually assessed by the Group Investment Committee and approved subject to a detailed evaluation if necessary.

Development of due from banks
(2012 and 2013 on a comparable basis)
In CHF million

LENDING BUSINESS

The Group's core competence in the Private Clients business segment is wealth management. Institutional Clients business activities also include specialised banking services in the areas of corporate and structured finance. Valartis Group's lending business thus comprises of Lombard loans to private banking clients as well as loans to institutional clients as part of the structured and corporate finance offering. In line with the Group's lending policy, only collateralised loans are generally granted.

Loan portfolio by business units

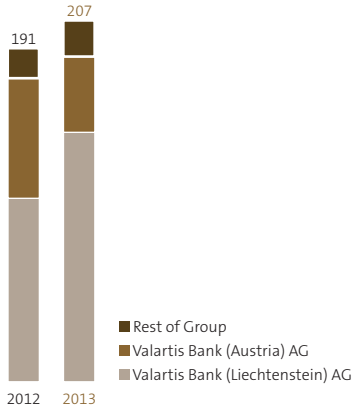


The chart above gives a breakdown of the Group's loan portfolio by business unit of continued operations as of 31 December 2013.

Loans are approved and monitored directly at the local level by each banks, based on the segregation of functions stated above. This makes it possible to take local aspects into account in the approval process, thereby ensuring the best possible service for individual clients. Credit risk is monitored at the consolidated level using the concept of economic risk capital. Standardised processes are employed to oversee compliance with the risk requirements on a consolidated basis.

The loan portfolio of continued operations grew by 9 per cent year-on-year. The bulk of this increase is attributable to new business at Valartis Bank (Liechtenstein) AG.

Development of loan portfolio by business unit
In CHF million



BOND PORTFOLIO

Investment strategy

The investment strategy has now become firmly established and did not change significantly compared with 2012. Valartis Group's bond portfolio remains divided between two different strategies.

For the Group's short-term liquidity management, repo-eligible bonds with short terms to maturity are held in the trading book and also in the portfolio as "available for sale" (AFS). This facilitates precise cash management whereby liquidity flows are matched and rapid access to funding on the international money markets is assured.

Medium-term investments are held in the banking book as "held to maturity" (HTM) or "available for sale" (AFS) positions and are intended to optimise returns on medium-term cash holdings.

The local Asset & Liability Committees manage liquidity for each bank in accordance with the guidelines provided by the Group Investment Committee based on input from Group Risk Management. Group Risk Controlling monitors the implementation of these strategies.

Investments in medium-term bonds

Investments in bonds with medium maturities are a way to optimise the return on medium-term cash holdings. The residual maturities in this portfolio are also set in line with Group-wide liquidity planning and currently average two years.

Valartis Group also sets high standards with respect to generating liquidity in this investment strategy. As in the short-term bond portfolio, a significant proportion of the bonds in the medium-term portfolio are also repo-eligible.

Overall portfolio

The Swiss Financial Market Supervisory Authority FINMA, which exercises consolidated banking supervision over Valartis Group, imposed stricter capital adequacy requirements on Valartis Group in 2013, as it did for many institutions in the Swiss financial sector. The explanations given below under "Developments in capital adequacy" must be borne in mind in this regard. In order to reduce the Group's risk profile to a sufficient degree and prevent a potential violation of the more stringent capital adequacy requirements, parts of the bond portfolio classified as "held to maturity" were sold in 2013, with the proceeds booked to the income statement. These sales reduced the value of the overall portfolio by CHF 434 million to CHF 165 million as of the end of 2013.

This significant change makes a comparison with the figures published in the 2012 Annual Report problematic. An adjusted prior-year portfolio was thus worked out so as to improve year-on-year comparability. Positions held by Valartis Bank AG, Switzerland, and Valartis Bank (Austria) AG were not included.

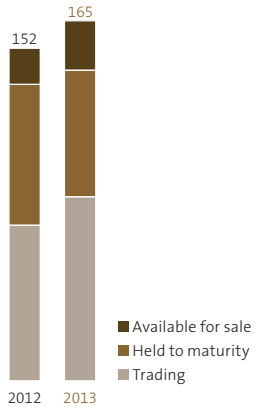
Diversification

The diversification of Valartis Group's bond portfolio by balance sheet category, credit quality, geography, currency, and industry sector is outlined below.

Balance sheet category

Approximately 51 per cent of the Valartis Group bond portfolio is held in the trading book, while 35 per cent is classified as "held to maturity" and 14 per cent as "available for sale".

Development of the bond portfolio by balance sheet category
In CHF million



Credit quality

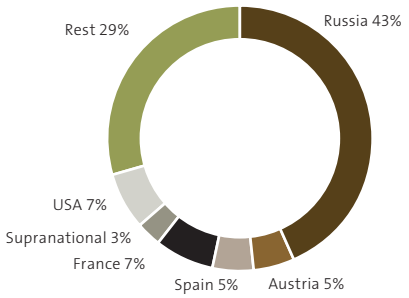
The credit quality of the bonds in the Valartis Group portfolio is relatively stable but following the general market tendency towards external rating downgrades. This explains the fall in the proportion of issuers with an external rating of A or higher from 40 per cent in 2012 to 37 per cent in 2013.

At the same time, the percentage of issuers with an external rating of BBB or higher remained stable year-on-year at roughly 93 per cent.

Geography and currency

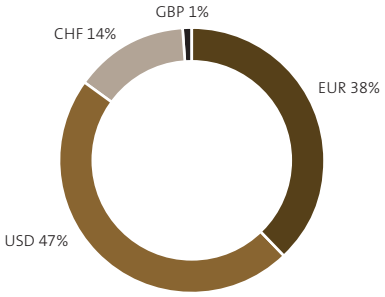
About 80 per cent of the Valartis Group bond portfolio consists of investments in Europe (including Russia). Other interest-bearing investments are from supranational and US issuers. Investments in sovereign debt from GIIPS countries (Greece, Italy, Ireland, Portugal, and Spain) account for a very small share of the overall portfolio (around one per cent, with no Greek bonds held). Total bond exposure in GIIPS countries (about six per cent) consists primarily of corporates and banks operating internationally. Group Risk Controlling monitors these investments separately.

Bond portfolio by country



The proportion of Russian-issued bonds as of 31 December 2013, which is relatively high for a banking group, is temporary in nature. The reason for this is the sale of parts of the bond portfolio classified as "held to maturity" described above. These sales led to an increase in the share of Group exposure accounted for by ENR Russia Invest SA, which invests mainly in CIS markets.

Bond portfolio by currency

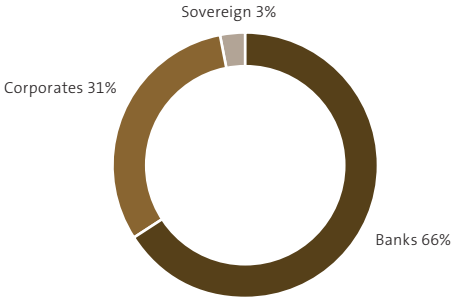


Approximately 50 per cent of the investments are denominated in EUR and CHF. In principle, Valartis Group avoids currency risks in its net cash flows. Any currency mismatches are hedged.

Classification

A little more than half of the bond portfolio is comprised of investments in bank bonds followed by corporate bonds in other sectors (31 per cent) and sovereigns (3 per cent).

Bond portfolio by classification



CAPITAL ADEQUACY

The fundamental goal of the Group Risk Management is to generate a suitable risk-adjusted return on the invested capital for the shareholders. To achieve this goal, Valartis Group seeks to identify advantageous risk-return ratios when managing the capital. In doing so, the Group avoids extreme risks that could endanger its risk capacity and thus its health and existence, managing all risks within the risk budget set by the Board of Directors. When managing the capital, the Group assesses both the required capital (minimum capital amount to cover risks on the basis of supervisory requirements) as well as the available eligible capital (available capital calculated according to the supervisory authorities' criteria) and evaluates the development of both as part of its capital planning.

Capital ratios

Capital requirements as well as tier 1 and tier 2 capital are set on the basis of the IFRS consolidated financial statements, but with a stricter definition of core capital. Any appreciation gains on either associated companies or financial investments which under local accounting rules must be recorded at the lower of cost or market are eliminated.

The qualitative and quantitative information required on capital adequacy, strategies, and risk management procedures, as well as on the risk situation of Valartis Group, are disclosed in the Notes to the Capital Management on page 113 ff. For every risk category, Basel III calls for different approaches for calculating capital adequacy. Valartis Group uses the Basel III standardised approach for credit and market risks, and the Basel III basic indicator approach for operational risks.

During the 2013 financial year, Valartis Group was at all times sufficiently capitalised on the basis of the currently valid rules of the Swiss Financial Market Supervisory Authority FINMA. As mentioned above, FINMA, which exercises consolidated banking supervision over Valartis Group, imposed stricter capital adequacy requirements on Valartis Group in 2013, as it did for many banking institutions in the Swiss financial sector. The treatment of capital investments of minority shareholders in fully consolidated group companies is to be implemented earlier than required by Basel III in that the transitional provision set out in Art. 142 para. 1 of the Ordinance concerning Capital Adequacy and Risk Diversification (CAO) is to be waived. Under these new capital adequacy requirements, in respect of capital investments of minority shareholders in fully consolidated group companies, the amount included in eligible capital cannot exceed the amount required for covering the proportional capital needs of the subsidiary, this taking effect for the first time as at 31 December 2013, and not as at 1 January 2019, as envisaged under Basel III. This clearly reduces the eligible capital.

In order to reduce Valartis Group's risk profile to a sufficient degree and prevent a potential violation of the more stringent capital adequacy requirements, parts of the bond portfolio classified as "held to maturity" were sold in 2013, with the proceeds booked to the income statement.

With these adjustments, Valartis Group's business activities required CHF 78.8 million of regulatory capital as at 31 December 2013, compared with CHF 108.8 million in 2012. However, as a result of the stricter capital adequacy requirements, the total eligible capital was CHF 158.5 million (2012: CHF 196.7 million). As at 31 December 2013, the strong core capital ratio was thus 15.2 per cent (2012: 13.3 per cent; minimum ratio: 9.0 per cent). The total capital ratio according as per Basel III was 16.1 per cent as at 31 December 2013 (2012: 14.5. per cent as per Basel II).

Since Valartis Group does not include any hybrid capital in the eligible equity capital and does not net any assets or liabilities (balance sheet contraction) in accordance with IFRS, the regulatory capital is not "diluted" and can still be considered to be good. Further information on equity capital and risk developments can be found on page 73 ff.

Comments on Basel III

The amendments to the Swiss Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Traders entered into force on 1 January 2013. These amendments have been implemented within the context of Basel III.

Valartis Group implemented the necessary measures to comply in good time with the requirements valid as of 1 January 2013. As regards regulatory capital planning, Group Risk Management has implemented the supervisory requirements in connection with Basel III. This includes, in particular, the three year plan for the required and available regulatory capital in the base case and when applying different stress tests.

In particular, the following changes are relevant for Valartis Group:

- As described above, more stringent restrictions were placed on the inclusion of minority interests in the eligible capital in accordance with Basel III. Minority interests are therefore no longer included in the eligible capital as of 31 December 2013.
- The maximum permitted concentration towards banks designated as systemically important was reduced. Valartis Group had already reduced the limits and positions towards these counterparties with effect as of 31 December 2012. In this regard, Risk Management is pursuing the optimisation of the allocation of limits to avoid concentrations of risk and to structure a higher diversification of the counterparty risk, while at the same time optimising the income on investments under the regulatory restrictions.
- Other assets, including associated realestate companies with non-banking real estate, will be granted the lower risk weighting of 100 per cent. Until 31 December 2012, a weighting of up to 375 per cent was required. Since Valartis Group has exposure towards such associated companies, the required capital for the non-counterparty risk was significantly reduced.

VALARTIS GROUP
CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

	Note	1.1.–31.12.2013	1.1.–31.12.2012 restated [1]
Interest and discount income		24,940	27,734
Dividend income		191	78
Interest expense		-7,650	-9,529
Income from interest and dividends	1	**17,481**	**18,283**
Commission income from loan business		650	641
Commission income from securities and investment business		63,898	55,697
Commission expense		-17,421	-14,829
Income from commission and service fees	2	**47,127**	**41,509**
Income from trading	3	**-3,639**	**6,292**
Income from associates		5,292	1,120
Other income		7,408	3,504
Other ordinary income	4	**12,700**	**4,624**
Total operating income		**73,669**	**70,708**
Personnel expense	5	-34,110	-33,015
General expense	6	-17,888	-17,368
Administrative expense		**-51,998**	**-50,383**
Gross profit		**21,671**	**20,325**
Depreciation/amortisation of property, plant and equipment and intangible assets	7	-10,544	-10,287
Valuation adjustments, provisions and losses	8	1,417	-5,625
Net profit from continued operations before taxes		**12,544**	**4,413**
Income taxes	9	689	3,149
Net profit from continued operations		**13,233**	**7,562**
Net profit/loss from discontinued operations after tax	40	-12,799	2,638
Net profit		**434**	**10,200**
Net profit/loss attributable to shareholders of Valartis Group AG		-2,441	6,695
Net profit attributable to non-controlling interests		2,875	3,505
Earnings per share		in CHF	in CHF
Undiluted earnings attributable to shareholders of Valartis Group AG	10	-0.53	1.44
Diluted earnings attributable to shareholders of Valartis Group AG	10	-0.53	1.44
Earnings per share – continued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG	10	2.26	0.87
Diluted earnings per share attributable to shareholders of Valartis Group AG	10	2.26	0.87
Earnings per share – discontinued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG	10, 40	-2.79	0.57
Diluted earnings per share attributable to shareholders of Valartis Group AG	10, 40	-2.79	0.57

1) Restated due to retrospectively implementation of IAS 19 revised. For further details we refer to page 94.
In the related notes the figures of previous year were restated.

In 2013 part of the Group is classified as discontinued operations according to IFRS 5. The prior year figures in the consolidated income statement and in the corresponding notes have been restated accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In CHF 1,000	1.1.–31.12.2013	1.1.–31.12.2012 restated [1]
Net profit in the income statement	**434**	**10,200**
Unrealised gains/losses from financial assets available for sale [2]	1,902	956
Gains/losses on financial assets available for sale transferred to the income statement [2]	167	57
Foreign exchange translation differences	2,787	-1,296
Other comprehensive income that will be reclassified to the income statement	**4,856**	**-283**
Remeasurement of defined benefit pension plans [3]	2,715	-510
Other comprehensive income that will not be reclassified to the income statement	**2,715**	**-510**
Total other comprehensive income, after tax	**7,571**	**-793**
Total comprehensive income [4]	**8,005**	**9,407**
Allocation of total comprehensive income		
Shareholders of Valartis Group AG	5,128	5,839
Non-controlling interests	2,877	3,568

1) Restated due to retrospectively implementation of IAS 19 revised. For further details we refer to page 94.
2) The gains/losses on financial instruments available for sale before tax amounts to TCHF 1'971 (gain) and the income tax to TCHF 98 (tax income). A tax income results because the unrealised gain from financial instruments available for sale of a group entity is not taxable according to local tax law. Therefore no deferred tax liabilities have been recognised. Other group entities reported minor unrealised losses for which deferred tax assets have been recognised. In previous year the gain on financial instruments available for sale before tax was TCHF 1'106 and the income tax TCHF -94.
3) The result of the remeasurment for defined benefit pension plans before tax is TCHF 3'213 and the tax effect TCHF -498 (previous year: pre-tax TCHF -604, tax effect TCHF 94).
4) The results of the discontinued operations, which are part of the comprehensive income, are disclosed in Note 40.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

In CHF 1,000	Note	31.12.2013	31.12.2012 restated [1]	01.01.2012 restated [1]
Cash	13	568,607	632,708	386,240
Cash deposits for reverse repurchase agreements	26		45,760	46,790
Due from banks	14	1,134,578	1,056,604	568,170
Due from clients	14	201,351	540,094	532,502
Trading portfolio assets	16	106,862	210,581	357,997
Financial assets available for sale	17	41,853	108,794	61,757
Financial assets held to maturity	17	57,174	328,789	356,188
Other financial assets at fair value	18	36,742	43,644	633
Associated companies	19	25,534	16,397	117,046
Property, plant and equipment	20	45,659	52,901	59,020
Accrued and deferred assets	21	9,355	29,211	34,641
Derivative financial instruments	22	477	1,243	10,372
Other assets	23	27,737	23,722	6,242
Goodwill and other intangible assets	24	49,490	70,511	76,733
Deferred tax assets	9	8,217	13,762	15,885
		2,313,636	**3,174,721**	**2,630,216**
Assets classified as held for sale	40	712,995		
Total assets		**3,026,631**	**3,174,721**	**2,630,216**
Total subordinated assets		3,284	2,692	0
of which discontinued operations		3,005		
Total amounts due from holders of qualified participations			277	11,255

1) See footnote on the next page.

Liabilities

In CHF 1,000	Note	31.12.2013	31.12.2012 restated [1]	01.01.2012 restated [1]
Liabilities				
Due to banks		29,476	263,871	199,388
Due to clients	27	1,913,274	2,542,002	2,059,131
Derivative financial instruments	22	904	6,160	5,864
Current income taxes	9	1,647	1,255	781
Accrued and deferred liabilities	28	13,981	17,422	23,636
Other liabilities	29	3,548	5,310	4,855
Issued debt instruments	30	12,268	0	0
Provisions	31	2,096	2,545	2,883
Deferred tax liabilities	9	14,697	20,184	25,451
		1,991,891	**2,858,749**	**2,321,989**
Liabilities directly associated with the assets classified as held for sale	40	715,536		
Total liabilities		**2,707,427**	**2,858,749**	**2,321,989**
Shareholders' equity				
Share capital	32	5,000	5,000	5,000
Reserves		286,644	291,413	284,789
Foreign exchange translation differences		-31,740	-34,533	-33,240
Unrealised income from financial assets available for sale		1,928	-133	-1,080
Treasury shares	33	-8,850	-9,626	-10,325
Shareholders' equity of the shareholders of Valartis Group AG		**252,982**	**252,121**	**245,144**
Non-controlling interests		66,222	63,851	63,083
Total shareholders' equity (including non-controlling interests)		**319,204**	**315,972**	**308,227**
Total liabilities and shareholders' equity		**3,026,631**	**3,174,721**	**2,630,216**
Total subordinated liabilities		37,044	44,382	44,544
of which discontinued operations		0		
Total amounts due to holders of qualified participations			53	1,268

1) Restated due to retrospectively implementation of IAS 19 revised. For further details we refer to page 94.
In the related notes the figures of previous year were restated.

In 2013 part of the Group is classified as discontinued operations according to IFRS 5. The prior year figures in the balance sheet and in the corresponding notes was not restated according to IFRS 5.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2012 In CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings
Opening balance at 1 January 2012	**5,000**	**-10,325**	**-4,145**	**289,991**
Restatement opening balance [1]				
Restated opening balance at 1 January 2012	**5,000**	**-10,325**	**-4,145**	**289,991**
Gains/losses from financial assets available for sale				
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive Income				
Net profit				6,695
Comprehensive income	**0**	**0**	**0**	**6,695**
Dividend payments [2]				-134
Change in treasury shares		699	-282	
Employee participation plan			333	
Transaction with non-controlling interests				522
Owner-related changes	**0**	**699**	**51**	**388**
Total shareholders' equity at 31 December 2012	**5,000**	**-9,626**	**-4,094**	**297,074**
2013				
Opening balance at 1 January 2013	**5,000**	**-9,626**	**-4,094**	**297,105**
Restatement opening balance [1]				-31
Restated opening balance at 1 January 2013	**5,000**	**-9,626**	**-4,094**	**297,074**
Gains/losses from financial assets available for sale				
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive Income [3]	**0**	**0**	**0**	**0**
Net profit/(-loss)				-2,441
Comprehensive income	**0**	**0**	**0**	**-2,441**
Dividend payments				-5,000
Change in treasury shares		776	-94	
Employee participation plan			122	0
Transaction with non-controlling interests		0	24	-95
Owner-related changes	**0**	**776**	**52**	**-5,095**
Total shareholders' equity at 31 December 2013	**5,000**	**-8,850**	**-4,042**	**289,538**

1) Restated due to retrospectively implementation of IAS 19 revised. For further details we refer to page 94.
2) The one off tax payment for the legal reserves (Entsteuerung der Altreserven) in Liechtenstein led to a discharge of TCHF 189 that is reported as dividend payment.
3) The share of discontinued operations on other comprehensive income in equity is disclosed in Note 40.

Net unrealised gains/ losses on financials available for sale	Foreign exchange translation differences	Remeasurement defined benefit pension plans	Total equity shareholders of the Valartis Group AG	Non-controlling interests	Foreign exchange effect on non-controlling interests	Total non-controlling interests	Total shareholders' equity
-1,080	**-33,240**	**0**	**246,201**	**63,101**	**-18**	**63,083**	**309,284**
		-1,057	-1,057			0	-1,057
-1,080	**-33,240**	**-1,057**	**245,144**	**63,101**	**-18**	**63,083**	**308,227**
947			947	66		66	1,013
	-1,293		-1,293		-3	-3	-1,296
		-510	-510				-510
947	**-1,293**	**-510**	**-856**	**66**	**-3**	**63**	**-793**
			6,695	3,505		3,505	10,200
947	**-1,293**	**-510**	**5,839**	**3,571**	**-3**	**3,568**	**9,407**
			-134	-595		-595	-729
			417			0	417
			333			0	333
			522	-2,205		-2,205	-1,683
0	**0**	**0**	**1,138**	**-2,800**	**0**	**-2,800**	**-1,662**
-133	**-34,533**	**-1,567**	**252,121**	**63,872**	**-21**	**63,851**	**315,972**
-133	**-34,528**	**0**	**253,724**	**63,872**	**-21**	**63,851**	**317,575**
	-5	-1,567	-1,603			0	-1,603
-133	**-34,533**	**-1,567**	**252,121**	**63,872**	**-21**	**63,851**	**315,972**
2,061			2,061	8		8	2,069
	2,793		2,793		-6	-6	2,787
		2,715	2,715			0	2,715
2,061	**2,793**	**2,715**	**7,569**	**8**	**-6**	**2**	**7,571**
			-2,441	2,875		2,875	434
2,061	**2,793**	**2,715**	**5,128**	**2,883**	**-6**	**2,877**	**8,005**
			-5,000	-1,140		-1,140	-6,140
			682			0	682
			122			0	122
			-71	634		634	563
0	**0**	**0**	**-4,267**	**-506**	**0**	**-506**	**-4,773**
1,928	**-31,740**	**1,148**	**252,982**	**66,249**	**-27**	**66,222**	**319,204**

CONSOLIDATED CASH FLOW STATEMENT

In CHF 1,000	2013	2012 restated [1]
Net profit before taxes form continued operations	12,544	4,413
Net profit/loss before taxes from discontinued operations	-12,972	3,567
Net profit/loss before taxes	**-428**	**7,980**
Non-cash activities in the consolidated income statement		
Depreciation of property, plant and equipment	7,201	7,200
Amortisation of intangible assets	6,219	6,135
Impairment of goodwill and intangible assets on discontinued operations	15,308	
Change in valuation adjustments and provisions	84	-315
Impairment of associated companies	-2,194	2,194
Income from associated companies	-5,292	-1,120
Income from sale of participations		531
Income from financial instruments	-6,099	2,078
Income from other assets	-4,720	
Other non-cash activities	2,339	-2,579
Change in deferred taxes	2,800	3,773
Net (increase)/decrease in assets and liabilities of the banking business		
Accrued and deferred assets	16,203	6,219
Accrued and deferred liabilities	-5,994	-11,070
Trading securities	72,590	146,634
Amounts due to clients	43,514	476,109
Amounts due from clients	-75,662	-11,179
Amounts due to banks, including repurchase agreements	-224,794	65,078
Amounts due from banks, including repurchase agreements	-23,804	-416,643
Derivative financial instruments (assets)	-937	9,129
Derivative financial instruments (liabilities)	2,646	296
Other financial assets at fair value including AFS	66,412	-48,742
Other assets	3,872	2,244
Other liabilities	-229	1,266
Taxes paid	-2,624	-1,080
Cash flow from operating activities	**-113,589**	**244,138**
Purchase of property, plant and equipment	-2,833	-1,402
Sale of property, plant and equipment		83
Acquisition of associated companies	-355	
Sale of associated companies		51,289
Purchase of intangible assets	-43	-124
Decrease of financial assets held to maturity	287,651	26,220
Sale of subsidiaries less corresponding cash		-7
Cash flow from investment activities	**284,420**	**76,059**

1) Restated due to IAS 19 revised.

In the Cash Flow statement there is no separation of the discontinued operations according to IFRS 5. The cash flows of the discontinued operations are disclosed in Note 40.

in CHF 1,000	2013	2012 restated [1]
Dividend payments	-5,000	
Change in treasury shares	641	417
Change in non-controlling interests in equity	-501	-2,205
Issuance of debt instruments	12,333	
Cash flow from financing activities	**7,473**	**-1,788**
Effect of foreign exchange translation differences (including non-controlling interests)	4,646	260
Increase in cash and cash equivalents	**182,950**	**318,669**
Position at 1 January	1,001,373	682,704
Position at 31 December	1,184,323	1,001,373
Cash and cash equivalents comprise the following assets:		
Cash	736,751	632,708
Due from banks at sight / callable	447,572	368,665
Total cash and cash equivalents	**1,184,323**	**1,001,373**
Whereof cash and cash equivalents from continued operations	952,160	
Cash	568,607	
Cash equivalents	383,553	
Whereof cash and cash equivalents from discontinued operations	232,163	
Cash	168,144	
Cash equivalents	64,019	
Dividends received	119	423
Interest received	50,775	47,368
Interest paid	-9,902	-8,446

1) See Footnote on page 88.

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE RISK MANAGEMENT

NOTES TO THE CAPITAL MANAGEMENT

NOTES TO THE CONSOLIDATED INCOME STATEMENT

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ADDITIONAL INFORMATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION OF BUSINESS

Valartis Group is an internationally active banking and finance group whose parent company, Valartis Group AG, is domiciled in Baar, canton of Zug, Switzerland, and is listed on the SIX Swiss Exchange. As its core competence, the Group concentrates on wealth management in the Private Clients business segment. Its Institutional Clients business covers the development, implementation, and management of innovative niche investment products and provides specialised banking services within corporate and structured finance. Geographically, Valartis Group operates in Switzerland, Central and Eastern Europe, the Middle East, and selected countries in North and South America as well as Asia.

ACCOUNTING PRINCIPLES

The consolidated financial statements of Valartis Group are prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the listing regulations of the SIX Swiss Exchange. As a banking group, 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).

CHANGES TO ACCOUNTING POLICIES

Implemented International Financial Reporting Standards and interpretations

The following new or revised standards and interpretations – applicable for financial years beginning 1 January 2013 – are relevant for Valartis Group:

IAS 1 – Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified to profit or loss at a future point in time (e.g., exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., actuarial gains and losses on defined benefit plans). The amendments affect presentation only and have no effect on the Group's financial position or performance.

IAS 1 — Clarification of the requirements for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An opening statement of financial position (also referred to as the "third balance sheet") must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment affects presentation only.

IAS 19 — Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. The revised standard eliminates the corridor approach that was previously also applied by Valartis Group. All changes in the present value of the defined benefit obligation and the fair value of the plan assets are recognised in the financial statements immediately in the period they occur. In addition, the revised standard specifies the presentation of the changes in the net defined benefit liability or asset. Service costs and net interest on the net defined benefit liability or asset are recognised in the consolidated income statement. Remeasurements comprising actuarial valuations are recognised in other comprehensive income in shareholders' equity.

These changes are applied retrospectively effective 1 January 2012. They have an impact on the plan assets/liabilities in the consolidated balance sheet, as well as the amounts recognised in the consolidated income statement and under other comprehensive income. The impact of the application of IAS 19R is shown in the table below.

Impact of IAS 19 (Revised)

	Reported	Restatement	Restated
Income statement 1.1. – 31.12.2012			
Personnel expense	-53,068	-37	-53,105
Income Taxes	2,215	6	2,221
Net profit/loss	**10,231**	**-31**	**10,200**
Net profit/loss attributable to the shareholders of Valartis Group AG	6,726	-31	6,695
Net profit attributable to non-controlling interests	3,505		3,505
Undiluted earnings attributable to shareholders of Valartis Group AG, in CHF	1.44	0	1.44
Diluted earnings attributable to shareholders of Valartis Group AG, in CHF	1.44	0	1.44
Statement of other comprehensive income 1.1. – 31.12.2012			
Net profit/loss	**10,231**	**-31**	**10,200**
Foreign exchange translation differences	-1,291	-5	-1,296
Actuarial gain/losses	0	-510	-510
Total other comprehensive income	**-278**	**-517**	**793**
Total comprehensive income	**9,953**	**-546**	**9,407**
allocated to the shareholders of Valartis Group AG	6,385	-546	5,839
allocated to the non-controlling interests	3,568		3,568
Balance sheet per 31 December 2012			
Other assets	25,619	-1,897	23,722
Total asset	**3,176,618**	**-1,897**	**3,174,721**
Deferred tax liabilities	20,479	-294	20,184
Total Liabilities	**2,859,043**	**-294**	**2,858,749**
Reserves	293,011	-1,598	291,413
Foreign exchange translation differences	-34,528	-5	-34,533
Total shareholders' equity (including non-controlling interest)	**317,575**	**-1,603**	**315,972**
Total liabilities and shareholders' equity	**3,176,618**	**-1,897**	**3,174,721**

IFRS 7 – Offsetting Financial Assets and Financial Liabilities (Amendment)

The amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are required to be set off in accordance with IAS 32. The amendment does not have an impact on the presentation of the Group's financial position or performance.

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the portion of the previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements, and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. Compared with the previous legal situation, the changes introduced by IFRS 10 will require management to exercise significant judgment

to determine which entities within the Group are controlled and whether these are therefore required to be consolidated in full in the consolidated financial statements. The criterias applied by management for this assessment are listed under the consolidation principles. The first time adoption of IFRS 10 had no impact on the scope of consolidation, and thus also had no impact on the consolidated shareholders' equity or the net profit or loss of Valartis Group.

IFRS 12 — Disclosure of Interests in Other Entities

IFRS 12 sets out disclosure requirements for interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This information is aimed at enabling users of financial statements to evaluate the risks and opportunities associated with such interests as well as their financial impact. The disclosure requirements are more comprehensive than the previous requirements. The collective investment instruments offered by Valartis Group are deemed to be unconsolidated structured entities in accordance with IFRS 12. The disclosures pursuant to IFRS 12 are set out in Note 48. IFRS 12 affects only the disclosure requirements, and therefore has no impact on the consolidated shareholders' equity or net profit or loss of Valartis Group.

IFRS 13 — Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not govern the issue of when assets and liabilities are to be measured at fair value but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The methods previously used to determine the fair value of assets and liabilities do not need to be changed as a result of the new requirements. The application of IFRS 13 thus has no impact on the consolidated shareholders' equity or the net profit or loss of Valartis Group. Disclosure was extended in accordance with IFRS 13. The required disclosures are provided in the notes to the individual assets and liabilities whose fair values were determined. The fair value hierarchy is provided in Note 45. The amendment of IAS 36 in respect of the disclosure of the recoverable amount for non-financial assets is being applied early.

IAS 19 – Defined Benefit Plans: Employee Contributions

IAS 19 is to be extended to allow for the option of contributions from employees or third parties to be recognised as a reduction in the service cost in the period in which the related service is rendered, provided such contributions are linked to service and are independent of the number of years of service. The amendments are to be applied retrospectively for financial years beginning on or after 1 July 2014. As early adoption is permitted, Valartis Group has already adopted this new amendmend of IAS 19. Valartis Group does not exercise the options allowed by IAS 19.

The following new and revised standards and their interpretations, which need only be applied for financial years beginning on 1 January 2013, have no material impact on the net profit or loss or the shareholders' equity of Valartis Group or are of no significance for Valartis Group:

IFRS 11 Joint Arrangements
IAS 28 Investments in Associates and Joint Ventures
IAS 27 Separate Financial Statements (Amendment)
IAS 32 Tax effect of distribution to holders of equity Instruments (Amendment)

Standards and interpretations not yet implemented

Various new and revised International Financial Reporting Standards and their interpretations are to be applied for financial years beginning later than 1 January 2013. Valartis Group has not made use of the possibility of early application of these changes.

IFRS – 9 Financial Instruments

In November 2009, the IASB published the new IFRS 9 standard for "Classification and Measurement of Financial Instruments" which replaces the corresponding requirements of IAS 39. In October 2010, IFRS 9 was supplemented by requirements on accounting financial liabilities. In November 2013, it was supplemented further, most notably by new rules on hedge accounting and by the deferral of the mandatory effective date from 1 January 2015 to an unspecified later date. Additional new regulations, including the impairment of financial assets, are still being drafted. The new requirements in IFRS 9 will result in amendments to a number of other standards, in particular IFRS 7 "Financial Instruments: Disclosures". Overall, the new requirements in IFRS 9 will particularly have effects on the balance sheet and reporting of financial assets of Valartis Group. Valartis Group will quantify the effect when the final standard is issued.

IAS 32 – Offsetting Financial Assets and Financial Liabilities (Amendment)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments become effective for annual periods beginning on or after 1 January 2014 and are not expected to impact the Group's financial position or performance.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2013 consolidated financial statements were released by the Board of Directors on 7 April 2014. The consolidated financial statements are subject to the approval of the Shareholders' Meeting on 13 May 2014.

MAJOR ACCOUNTING PRINCIPLES

Consolidation principles

Subsidiaries

The consolidated financial statements comprise the accounts of Valartis Group AG, Baar, canton of Zug, Switzerland, and its subsidiaries as at 31 December 2013. A controlling relationship is deemed to exist if the following conditions are met cumulatively: Valartis Group has power over the other company; it is exposed to variable returns from its involvement with the other company; and it has the ability to affect the amount of those returns through its power over the other company.

If the Group does not hold a majority of the voting rights of an investee, it takes into account all the relevant facts and circumstances in determining whether control exists. These include, among others, contractual arrangements with other parties holding voting rights or rights arising from other contractual arrangements. If the facts and circumstances indicate a change in one or more of the three control elements, the Group will reassess whether it has control over an investee.

Consolidation of a subsidiary begins at the date the Group obtains control over that subsidiary and ceases when the Group loses control over the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the reporting period are included on the balance sheet and in the statement of comprehensive income from the date the Group obtains control of the subsidiary until the date the Group ceases to control the subsidiary. If Valartis Group loses control over a company, any retained interest is recognised as an investment in an associate or as a financial instrument under IAS 39.

Investments in associates and joint ventures

Group companies over which Valartis Group can exercise a significant influence are accounted for using the equity method, and are recorded under "Associated companies". As a rule, influence is considered significant if the Group holds between 20 per cent and 50 per cent of the voting rights.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Group's investments in a joint venture are accounted for under "Joint ventures" in accordance with the equity method.

The considerations made in determining significant influence or joint control are comparable with those necessary to determine control over subsidiaries.

The acquisition of an investment in an associated company or a joint venture 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 or joint venture 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" or under "Joint ventures". Any negative goodwill positions are recognised as income under "Income from business combinations (negative goodwill)". Subsequently, the carrying amount of the associated company is increased or decreased depending on the Group's share in the profit or loss for the period of the associated company or joint venture, minus dividends received and foreign exchange translation differences.

Structured entities

The collective investment instruments of Valartis Group are structured entities as defined under IFRS 12. If Valartis Group operates such an investment instrument acting as an agent primarily in the interests of investors, this structured entity is not consolidated. Investments in such investment instruments held by Valartis Group are recognised as financial instruments. If Valartis Group acts as principal primarily in its own interests, the investment instrument is consolidated.

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. Non-controlling interests in equity and net profit are stated separately in the consolidated statement of financial position and income statement.

Changes in the scope of consolidation

The share in Panariello Enterprises Ltd. was reduced from 100 per cent to 49 per cent in 2013. There were no other changes in the scope of consolidation in 2013.

Consolidation period

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

General principles

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. Not realised foreign exchange differences of equity investment – available for sale are part of the change of its entire fair value and are recognised in the shareholders equity. The following exchange rates are used for the major currencies:

	2013 Balance sheet date rate	2013 Annual average rate	2012 Balance sheet date rate	2012 Annual average rate
EUR	1.2268	1.2309	1.2073	1.2053
USD	0.8903	0.9268	0.9152	0.9379
GBP	1.4726	1.4491	1.4806	1.4862
DZD	1.1400	1.1643	1.1700	1.2084

Segments

Valartis Group is divided into two operational business segments: Private Clients and Institutional Clients. Reporting is based on operating locations. Certain services , consolidation items, and items that cannot be directly allocated to a particular segment are recognised 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, giro and sight deposits with the Swiss National Bank) and at sight/immediately callable amounts due from banks. Those may also include pledged amounts.

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.

Determination of fair value

Valartis Group measures part of the financial instruments and the financial liabilities as well as individual non-financial assets at fair value at each balance sheet date. Fair value is defined as being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an orderly arm's length transaction.

The fair values are used either to determine the carrying amount or for the disclosures in the notes.

All assets and liabilities that are reported at fair value or for which the fair value is disclosed in the notes are categorised within the fair value hierarchy, described as follows below.

Level 1 instruments

Level 1 instruments are those financial instruments whose fair value is based on quoted prices in active markets. This category comprises almost all equity and debt instruments held by the Group. Investment funds for which a binding net asset value is published at least daily, exchange-traded derivatives and precious metals are also categorised as level 1 instruments.

Closing prices are used for the valuation of debt instruments in the trading book. In the case of equity instruments, listed investment funds and exchange-traded derivatives, the closing or settlement prices of the relevant exchanges are used. In the case of unlisted investment funds, the published net asset values are used. In the case of currencies and precious metals, generally accepted prices are applied. No valuation adjustments are made in the case of level 1 instruments.

Level 2 instruments

Level 2 instruments are financial instruments whose fair value is based on quoted prices in markets that are not active. The same categorisation is used where the fair value is determined using a valuation method where significant inputs are observable, either directly or indirectly. This category essentially comprises forex and interest-rate derivatives as well as illiquid debt instruments and investment funds for which a binding net asset value is not published on a daily basis.

If no active market exists, the fair value is determined on the basis of generally accepted valuation methods. If all of the significant inputs are directly observable in the market, the instrument is deemed to be a level 2 instrument.

The valuation models take account of the relevant input such as the contract specifications, market price of the underlying asset, the foreign exchange rate, the corresponding yield curve, default risks, and volatility.

The valuation of interest rate instruments for which no quoted prices exist is carried out using generally recognised methods. For the valuation of OTC derivatives, generally recognised option pricing models and quoted prices in markets that are not active are used. In the case of investment funds, the published net asset values are used. The credit risk is only taken into account when market participants would take it into account when determining prices.

Level 3 instruments

If at least one significant input cannot be observed directly or indirectly in the market, the instrument is classified as a level 3 nstrument. These essentially comprise equity instruments and/or investment funds for which a binding net asset value is not published at least quarterly. The fair value of these positions is based on the estimates of external experts or on audited financial statements. Where possible, the underlying assumptions are supported by observed market quotes.

The procedure for determining the fair value of the contingent purchase price consideration from the sale of Eastern Property Holdings Ltd. included under "Other financial assets at fair value" is shown in Note 45.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The categorisation of the financial instruments and financial liabilities in the described fair value hierarchy is shown in Note 45. In the case of non-financial assets that are recorded at fair value or for which a fair value must be disclosed, the information on the determination of the fair value and the categorisation level can be found in the corresponding notes.

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.

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

- Trading securities and liabilities from trading
- 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 that are neither held for trading nor designated as financial assets available-for-sale and that are not measured at fair value in the income statement

Trading securities and liabilities from trading

Trading securities include money market papers, other debt instruments including marketable loans and equity instruments (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 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.

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".

Financial assets available for sale

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 respectively movements in interest rates, exchange rates, or share prices. These financial instruments can comprise equity instruments, including specific private equity investments, and debt instruments.

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.

Foreign currency translation gains and losses are recorded as trading income in the case of monetary items (debt instruments) and are recorded as a component of the change in fair value in other comprehensive income in the case of non-monetary items (equities).

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 comprehensive income 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".

Financial assets held to maturity

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 classified as 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.

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".

Other financial instruments at fair value (fair value option)

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, 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.

Derivative financial instruments

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, 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".

Valartis Group uses derivative financial instruments for trading purposes. Changes in the fair value of derivatives are recognised in the income statement under "Income from trading".

Loans

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.

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.

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. 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".

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 and debt instruments 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".

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 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 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.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Property, plant, and equipment

Property, plant, and equipment include 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	max. 100 years
Fixtures in third-party properties	max. 10 years
IT and telecommunications equipment	max. 5 years
Software	max. 5 years
Other fixed assets	max. 5 years

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.

Goodwill

Goodwill is measured as the difference between the sum of the fair value of consideration transferred plus the recognised amount of any non-controlling interests in the acquire and the recognised amount of the identifiable assets acquired and liabilities assumed.

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 CGU 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 CGU 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 a CGU is expected to generate.

Should the carrying amount of the CGU exceed the recoverable amount, a goodwill adjustment charge is recognised in the income statement.

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 Swiss banking licence. Due to the sale of Valartis Bank AG, Switzerland, this intangible asset was classified under discontinued operations as at 31 December 2013 and was fully written down.

Provisions

A provision is recognised if as a result of past events the Group has a current liability on the balance sheet date that is likely to result in the outflow of resources, and the amount of which can be reliably estimated. If the liability cannot be sufficiently reliably estimated, it is shown as a contingent liability.

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.

Operating 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.

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".

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, Table Q). 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. They essentially comprise 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 (i.e., 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.

Employee benefits

Short-term employee benefits

Short-term employee benefit obligations are measured and recorded on an undiscounted basis as soon as the employees render the related service and the obligation can be reliably estimated.

Pension plans

Valartis Group makes contributions for its employees to various pension plans that provide benefits in the event of death, disability, retirement, or termination of employment. These include both defined benefit and defined contribution plans.

In the case of defined benefit plans, the period costs are determined by an independent recognised actuary. The benefits provided by these plans are generally based on the years of insurance, age, and pensionable salary. The net liability or net asset for each defined benefit plan is measured on the basis of the present value of the pension obligations determined using the projected unit credit method and the present value of the plan asset and reported in the balance sheet. These calculations are carried out annually by the actuary on the basis of the estimated future benefits based on the years of service. If the calculation shows an overfunding, the net asset to be recorded is limited to the present value of an economic benefit.

Remeasurements resulting from actuarial gains and losses, the effect of the asset ceiling, or the return on plan assets (excluding net interest), are recorded in other comprehensive income with a corresponding debit or credit to retained earnings. All expenses related to defined benefit plans are recorded through profit and loss as employee benefits.

Valartis Group does not exercise the option, to recognise contributions from employees or third parties as a reduction in the service cost in the period in which the related service is rendered.

Issued debt instruments

The issued debt instruments are initially recorded at acquisition cost, i.e., at the fair value of the consideration received minus transaction costs. The difference between the acquisition cost and the repayment value (nominal value) will be recorded in the income statement under interest expense over the term of the instrument using the effective interest method.

Share-based payment

The bonus model of Valartis Group stipulates that performance-related remuneration in excess of CHF 50,000 is paid out as follows: 50 per cent of the total bonus is paid out immediately in cash. An additional 25 per cent is allocated in the form of shares in the company (bonus shares) which are eligible after one year and which are blocked for two years. The remaining portion of the bonus of 25 per cent, also in the form of shares in the company (super bonus shares), vests after three years and is dependent on the performance of Valartis Group over this period.

The remuneration model as described basically applies to all employees in Switzerland. When implemented in other countries, local practices and regulations are followed. In terms of the bonus shares and super bonus shares, the market-related volumes are fixed at the time the rights to these shares are acquired and are not adjusted for the entire length of the vesting period. By contrast, the parameters that cannot be observed on the market are continually reassessed during the vesting period based on current developments. The estimated expense for the bonus shares and super bonus shares as at the balance sheet date is charged pro rata temporis to personnel costs and the shareholders equity for the entire vesting period.

ESTIMATES, ASSUMPTIONS, AND EXERCISE OF DISCRETION BY MANAGEMENT

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.

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:

Discontinued operations

The realigned front organisation did not lead to the expected improvement in the ability of Valartis Bank AG, Switzerland, to acquire clients in the first half of 2013 and it became apparent that the bank would be unable to achieve the critical volume it required in the foreseeable future. The Board of Directors of Valartis Group AG decided on 26 August 2013 to divest Valartis Bank AG, Switzerland. This decision was then subsequently communicated. Valartis Bank AG, Switzerland, and Valartis Wealth Management SA are thus classified as discontinued operations as at 31 December 2013. The Management concluded that criterias for classification for discontinued operations are met and expects to be able to implement the best possible solution in the course of 2014.

Fair value of financial instruments

If the determination of the fair value of financial assets and liabilities is not based on quoted market prices or price quotes by brokers, the fair value is calculated by means of valuation methods, e.g., discounted cash flow models. As far as possible, input parameters for modelling are based on observable market data. If there are no observable market data available, discretionary decisions and estimates are used taking into account parameters such as liquidity risk, default risk, and volatility risk. Changes in these estimates may have an effect on the fair value of such financial instruments. For further details see "General principles, Determination of fair value".

Fair value of contingent purchase price consideration

Valartis Group sold its strategic stake of around 40 per cent in Eastern Property Holdings Ltd. (EPH) on 19 December 2012. Valartis Group will receive a sales price of approximately USD 110 million in cash over four years. The payment of the sales price is split into a number of instalments and is partially connected to the successful completion of the current development projects of EPH. A first instalment of USD 56.8 million was received by Valartis Group in cash in 2012. Valartis International Ltd., a 100 per cent subsidiary of Valartis Group AG, will continue to act as a manager and an administrator for EPH, a real estate development company that is listed on the SIX Swiss Exchange. The determination of the fair value of this deferred contingent purchase price consideration of the EPH transaction is to a large extent based on a semi-annual project evaluation based on the expected cash flows and the resultant net asset value (NAV). If these parameters change due to changes in the economic situation or new market conditions, future results may deviate from the calculated NAV. Such deviations may impact the valuation of the contingent purchase price consideration.

Value adjustments on credit positions

Various factors can influence the value adjustment estimates for credit positions. These factors include changes in borrowers' credit ratings, loan collateral valuations and the expected scale of loss. Management determines how high the value adjustment needs to be based on the present value of the expected future cash flows. In order to estimate the expected cash flows, management must make assumptions regarding the financial situation of the counterparty and the estimated recoverable amount of collateral.

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 and AuM multiplicators (Assets under Management). All material assumptions are disclosed in the notes to the financial statements. 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.

Provisions

Valartis Group recognises provisions for imminent threats 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.

Actuarial assumptions

For the defined benefit plans, statistical assumptions have been 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 turnover probabilities in their actuarial calculations to determine the pension liabilities.

If these parameters change due to demographic developments, changes in the economic situation, or new market conditions, future results may 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.

Associated companies

Associated companies are measured using the equity method. For the major associated companies, Valartis Group has real estate valuations carried out annually by independent experts.

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 assets 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.

Restrictions on capital outflows

As at 31 December 2013, Valartis Asset Management SA, a wholly owned subsidiary of Valartis Group AG, recognised receivables and accrued and deferred assets of around CHF 3.6 million (2012: CHF 2.8 million) in respect of Société des Centres Commerciaux Algérie SPA (SCCA), an associated company of Valartis Group. SCCA is domiciled in Algeria. There are legal requirements that permit outward transfers of capital from Algeria only under certain conditions. Due to these conditions there is uncertainty with regard to the timing of the repayment of the receivables to Valartis Asset Management AG. In management's opinion, the conditions for the settlement of the receivables can be met by submitting the corresponding contract documents to the Banque d'Algérie. SCCA's payment plan envisages the amount due being settled in instalments at the end of 2016 and the end of 2017. Management has therefore concluded that there is no need for a valuation adjustment in respect of the amount due from SCCA.

NOTES TO THE RISK MANAGEMENT

STRUCTURE OF RISK MANAGEMENT

Overview

Accepting specific risks and managing them professionally is the basis for the value-driven success of the Valartis Group. Accordingly, the return for accepting risks is central to risk management and risk control.

The concept for risk management and risk control is provided by the fundamental principles defined in the risk policy. 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 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 – which is essential for the Valartis risk management concept – can be presented. The ERC method has some advantages over other risk measurement methods that are based on a statistical analysis of the markets. For example, factors that affect the loss potential are included in the calculations in a very transparent way. This makes it easy to interpret the results of the risk analysis, enabling an efficient optimising of the risks assumed with respect to the expected return.

Risk management organisation

In its role as the ultimate supervisory body, the Board of Directors is responsible for all risks of the Group. By means of the risk policy, the Board of Directors defines all risk activities of the Group: It is responsible for defining the annual risk budget, the formulation of additional limits and the maximum risk tolerance (quantitatively and qualitatively) in respect of the risk capacity of the Group. Within the Board of Directors, the Audit Committee is focused on the specific questions regarding accounting and the management of risks. The Group Executive Management 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 usually performed directly in connection with the business units and is based on the guidelines from central Risk Management. Risk Controlling is responsible for independent risk assessments at 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 allocation, and risk controlling. Risk Controlling reports to the CFO/CRO of Valartis Group.

Risk reporting

The reporting obligations with regard to content, responsibility, recipients, and frequency are defined in the risk policy. The regular reporting is submitted to the Group Executive Management and the Board of Directors. The reports contain a structured presentation of the risk indicators – risk limits and utilisation – for the various business activities. The risk measurement and risk reporting can be hierarchically structured and remain very concise, as the underlying ERC concept enables the risks of different business activities to be added despite their – in some cases very different – market characteristics. This can even be done without forfeiting the necessary accuracy or violating the applicability of the risk measurement methods. The risk report, in combination with the associated profitability figures, allows management to allocate limits to business activities with a view to achieving the best possible relationship between risk and return.

MARKET RISK

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

Market risks

Valartis Group's trading positions are managed by the various Group companies. Risk monitoring takes place centrally and decentrally to ensure compliance with risk limits both Group-wide and locally. Trading activities are focused on fixed-income portfolios, the hedging of certificates that have been issued, and some stock market positions, mostly as part of market-making activities.

A specially adapted measurement method is used to report the market risks of each business activity.

Equities

As a rule, these products are highly liquid. This means that market risks can be managed promptly, and can be reduced quickly and efficiently if necessary. The risk measurement method used takes this product characteristic into account. The choice of parameters is monitored with a high level of frequency on the basis of the market conditions observed, and adjusted as required.

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. For this reason a risk assessment is carried out by conducting a stress scenario analysis, taking into account a significant reduction in price at the same time as a change in other market parameters, such as volatility or an abrupt slump in the trading volume of the product. Correspondingly, the risk factor used in determining the economically required capital is significantly higher than for equities that have a high level of market liquidity or for a market for traded derivatives.

Interest rate instruments

The market risks of interest rate instruments are calculated by applying to the market value of the instrument a stress factor for the general interest rate risk and for the specific interest rate risk.

In the case of bonds not denominated in CHF, the risk contribution of forex volatility is also determined as part of determining the forex risk. The stress factor is determined by means of a rating classification, based on ratings from different agencies as well as internal valuation methods. This ERC used internally results in a more conservative risk assessment than is required from the regulatory perspective.

Table 1 shows the market price risk of equities and interest rate instruments in the trading book.

Table 1: Value at Risk (99 per cent, 1 day) of Valartis Group's trading portfolio assets (continued operations)

In CHF 1,000	2013	2012
Volume trading interest rate instruments	83,306	74,994
Interest rate instrument price risk	252	170
Volume trading equities	4,907	6,285
Equity price risk	240	360
Total	**492**	**530**

The price risk of the interest rate instruments increased in the observation period from TCHF 170 to TCHF 252. This development is due to increased interest rate volatility in 2013.

The drop in the equity price risk is in keeping with the reduction in equity investments to TCHF 4,907.

Market risk: balance sheet structure

Interest rate and currency risks are caused by the balance sheet structure, specifically in mismatches in capital commitments, interest maturities, and currencies between assets, liabilities, and the off-balance-sheet positions.

The interest rate and currency risks arise from the deposits and investments business of the various Group companies, and are managed and monitored locally within the framework of limits set out in Group guidelines. At the aggregated level, there is additional centralised management and monitoring, which ensures that diversification effects are used cost-efficiently and Group-specific positions are taken into account.

Interest rate risks

The interest rate sensitivity is 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 a parallel interest rate movement of +/-100 basis points across all maturities.

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

In CHF 1,000	31.12.2013		31.12.2012	
	+1%	-1%	+1%	-1%
CHF	-224	60	-1,104	364
EUR	-300	474	-4,978	3,437
USD	-2,266	2,279	-4,062	2,170
Others	-83	66	-375	264

The interest rate risks fell across all currencies compared with 2012 due to the bond sales.

An interest rate increase of 100 basis points across all currencies would entail a market value loss of around CHF 3 million.

Currency risks

The currency risks arising from trading book positions and financial investments are monitored and managed on an aggregated basis. The sensitivity to a 1 per cent move in exchange rates is shown for all currency risks in table 3. In principle, currency risks are kept low, except in the case of certain positions in EUR and USD for which dynamic hedging is permitted within set limits.

Table 3: Significant currency risks in the trading and banking books

In CHF 1,000 + 1%	31.12.2013 Currency sensitivity	31.12.2012 Currency sensitivity
EUR	129	76
DZD	100	188
USD	39	129
RUB	39	37
PLN	4	0
SGD	4	4
GBP	3	8
Others	4	9

The greatest currency sensitivity as at 31 December 2013 is in Euro (EUR) at TCHF 129, followed by the currency sensitivity in Algerian Dinar (DZD). The latter is directly linked to the investments in associated company Darsi (see Note 19).

LIQUIDITY RISK

Liquidity risk is the risk of the Group not having sufficient liquid funds available to meet its short-term payment obligations.

Management of liquidity risk

Operational liquidity risk management takes place decentrally at the individual Valartis Group companies, which must in so doing comply with the legal requirements in terms of liquidity and minimum reserves as well as the Group limits. Strategic liquidity risk management and the consolidated monitoring of compliance with the liquidity requirements are carried out centrally. The regular measurement of the insolvency risk is carried out on the one hand by measuring the LCR as required by law, and on the other hand with an analysis of ANL (Available Net Liquidity), to be interpreted as the result of the economic stress test. The strategic liquidity risk management includes the continual monitoring of structural liquidity, the analysis and simulation of possibilities for generating additional liquidity, e.g., by using repo transactions, open market transactions, the potential sale of liquid assets, the restructuring of maturities on the deposit side in respect of client assets, e.g., through incentives in the form of interest terms and other measures. The regulatory stress test in this instance is linked to the economic stress test for the development of the regulatory and economic capital ratio, and is subject to regular monitoring by Group Risk Controlling and Group Risk Management.

Valartis Group seeks to continually harness new, diversified sources of refinancing, so as to ensure availability of the required liquidity at all times. In particular, Valartis Group maintains access to the repo market to allow it to procure liquidity quickly and to reduce counterparty risks in financial investments.

The table "Maturity structure of assets and liabilities" (Note 35) shows future cash flows based on the earliest contractual maturity, disregarding assumptions about the probability of individual cash flows. In particular, the trading portfolio shows the multi-level liquidity management system that includes cash, staggered maturities on due from banks, and liquid debt instruments.

CREDIT RISK

Credit risk reflects the risk of loss arising from the failure of a counterparty to fulfil its contractual obligations. It includes default risks from the direct lending business, the invested bond portfolio, concluded transactions (such as money market transactions, derivative transactions, etc.), and settlement risks.

Management of credit risks

The credit risk management is primarily focused on managing and monitoring the collateral values, which are a result of haircuts applied to the market values, and the liquidity of the collateral. Credit exposure must always remain within the limits granted by Group Management and the Board of Directors, and it is secured by collateral. The lending business by other Group companies is limited.

The calculation of credit risk for balance sheet positions and off-balance-sheet positions in tables 4 to 8 was carried out on the basis of the capital adequacy requirements for credit risks under Basel III. For this reason, the figures reported in tables 4 to 8 may deviate from the balance sheet values under IFRS. Financial instruments include financial assets held to maturity and available for sale instruments, as well as the other financial assets at fair value. The remaining positions that are subject to capital charges are reported collectively under other assets. In particular, this includes accruals and deferrals and other assets.

Table 4: Credit risk – overview of collateral

In CHF 1,000	Mortgage-backed	Backed by collateral recognised under Basel III	Backed by collateral not recognised under Basel III [3]	No collateral	Total
Loans 2013					
Due from banks				1,134,578	1,134,578
Due from clients	6,832	168,628		25,891	201,351
of which mortgage loans	6,832				6,832
– Residential property	2,101				2,101
– Office and business property	790				790
– Commercial and industrial property	1,604				1,604
– Other	2,337				2,337
Financial instruments		37,915		97,854	135,769
Other assets				45,309	45,309
Derivative financial instruments				477	477
Total loans at 31 December 2013	**6,832**	**206,543**	**0**	**1,304,109**	**1,517,484**
Loans 2012					
Due from banks		45,760		1,056,604	1,102,364
Due from clients	12,492	467,098	37,367	23,137	540,094
of which mortgage loans	11,716				11,716
– Residential property	2,601				2,601
– Other [1]	9,115				9,115
Financial instruments				481,227	481,227
Other assets				68,952	68,952
Derivative financial instruments		179		1,064	1,243
Total loans at 31 December 2012	**12,492**	**513,037**	**37,367**	**1,630,624**	**2,193,520**
Off-balance-sheet items 2013					
Contingent liabilities	18	17,237		1	17,256
Irrevocable commitments					0
Add-ons [2]					0
Total off balance sheet items at 31 December 2013	**18**	**17,237**	**0**	**1**	**17,256**
Off-balance-sheet items 2012					
Contingent liabilities		15,242	18,306	97	33,645
Irrevocable commitments				946	946
Add-ons [2]		1,688		3,781	5,469
Total off balance sheet items at 31 December 2012	**0**	**16,930**	**18,306**	**4,824**	**40,060**

1) This is a commercial loan (hotel loan)
2) The add-ons that are shown entail a percentage-based premium based on the contract volume of derivative financial instruments. The percentage rate is determined on the basis of the underlying and the remaining term of the contract.
3) This position contains all receivables which have been additionally covered according to internal guidelines as the respective collateral, e. g. private equity positions or other assets eligible as collateral, could not be recognised pursuant to Basel III.

Table 4 shows that secured lending represents more than 87 per cent of the total due from clients. This figure is lower than the 95 per cent recorded in 2012. The change is attributable to the exclusion of the lending business of Valartis Bank, Switzerland. The bulk of the collateral consists of collateral recognised under Basel III (primarily from the Lombard business).

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

In CHF 1,000	Switzerland	Europe [1]	Other	Total
Geographical credit risk 2013				
Due from banks	184,002	929,643	20,933	1,134,578
Due from clients	20,283	60,052	121,016	201,351
Financial instruments	19,274	56,826	59,669	135,769
Other assets	1,545	41,892	1,872	45,309
Derivative financial instruments	281	80	116	477
Subtotal	**225,385**	**1,088,493**	**203,606**	**1,517,484**
Contingent liabilities	5,276	7,938	4,042	17,256
Irrevocable commitments				0
Call commitments and additional funding obligations				0
Add-ons				0
Total at 31 December 2013	**230,661**	**1,096,431**	**207,648**	**1,534,740**
Geographical credit risk 2012				
Due from banks	225,506	842,541	34,317	1,102,364
Due from clients	36,525	406,389	97,180	540,094
Financial instruments	16,307	385,113	79,807	481,227
Other assets	9,559	56,815	2,218	68,592
Derivative financial instruments	547	334	362	1,243
Subtotal	**288,444**	**1,691,192**	**213,884**	**2,193,520**
Contingent liabilities	716	16,095	16,834	33,645
Irrevocable commitments	946			946
Call commitments and additional funding obligations				0
Add-ons	4,230	1,064	175	5,469
Total at 31 December 2012	**294,336**	**1,708,351**	**230,893**	**2,233,580**

1) Investments in government bonds from GIIPS-countries (Greece, Italy, Ireland, Portugal and Spain) represent only a minor part of the total portfolio (about 1 per cent and no bonds from Greece).

Table 5 shows a concentration in Europe of due from banks and clients as well as financial instruments. As at 31 December 2013, foreign commitments amounted to CHF 1.3 billion, or 85 per cent of the total lending volume.

More than 72 per cent of the lending and investments originate from Europe. The classification of due from clients is based on the underlying country risk and therefore may differ compared with an allocation based on the domicile of the borrower.

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

In CHF 1,000	Central banks	Banks	Public sector entities	Private and institutional investment clients	Other	Total
Breakdown by counterparty 2013						
Due from banks		1,133,678		900		1,134,578
Due from clients				185,380	15,971	201,351
Financial instruments	6,283	33,703	12,271	46,810	36,702	135,769
Other assets	0	394	8,434	6,208	30,273	45,309
Derivative financial instruments		246		231	0	477
Subtotal	**6,283**	**1,168,021**	**20,705**	**239,529**	**82,946**	**1,517,484**
Contingent liabilities		3,603		13,653		17,256
Irrevocable commitments						0
Call commitments and additional funding obligations						0
Add-ons						0
Total at 31 December 2013	**6,283**	**1,171,624**	**20,705**	**253,182**	**82,946**	**1,534,740**
Breakdown by counterparty 2012						
Due from banks		992,264	64,340		45,760	1,102,364
Due from clients	3,751	46,347		489,996		540,094
Financial instruments	52,532	235,773	8,545	164,050	20,327	481,227
Other assets	5,876	9,541	249	32,418	20,508	68,592
Derivative financial instruments	88	882	60	138	75	1,243
Subtotal	**62,247**	**1,284,807**	**73,194**	**686,602**	**86,670**	**2,193,520**
Contingent liabilities	37	1,458		32,150		33,645
Irrevocable commitments			946			946
Call commitments and additional funding obligations						0
Add-ons	40	3,580	1,542	307		5,469
Total at 31 December 2012	**62,324**	**1,289,845**	**75,682**	**719,059**	**86,670**	**2,233,580**

Table 6 shows a concentration of bank counterparties, which is managed by a limit system on a consolidated level. This process ensures the diversification of the counterparties themselves as well as the counterparty domiciles. The classification of due from clients is made based on the underlying risk and therefore may differ compared with an allocation based on type of borrower. Financial instruments issued by corporate entities are allocated to the category Private and institutional investment clients.

Table 7: Credit risk – quality of assets

In CHF 1,000	AAA to AA-	A+ to BBB-	BB+ or lower	No external rating	Book value of impaired loans net	Total
Quality of assets 2013						
Due from banks	196,147	804,064		133,832	535	1,134,578
Due from clients		7,533		191,973	1,845	201,351
Financial instruments	34,689	43,863	1,267	55,950		135,769
Other assets	1	5		45,303		45,309
Derivative financial instruments	246			231		477
Subtotal	**231,083**	**855,465**	**1,267**	**427,289**	**2,380**	**1,517,484**
Contingent liabilities		1,837		15,419		17,256
Irrevocable commitments						0
Call commitments and additional funding obligations						0
Add-ons						0
Total at 31 December 2013	**231,083**	**857,302**	**1,267**	**442,708**	**2,380**	**1,534,740**
Quality of assets 2012						
Due from banks	171,477	770,083		160,804		1,102,364
Due from clients				539,341	753	540,094
Financial instruments	79,451	306,857	30,877	64,042		481,227
Other assets	850	3,238	564	63,940		68,592
Derivative financial instruments	59	163	0	1,021		1,243
Subtotal	**251,837**	**1,080,341**	**31,441**	**829,148**	**753**	**2,193,520**
Contingent liabilities		1,399		32,246		33,645
Irrevocable commitments				946		946
Call commitments and additional funding obligations						0
Add-ons	1,532	1,066		2,871		5,469
Total at 31 December 2012	**253,369**	**1,082,806**	**31,441**	**865,211**	**753**	**2,233,580**

Table 7 shows the quality of the assets according to the external ratings available. Less than 0.1 per cent of the investments have a rating below investment grade (BBB). Financial instruments without a rating are mainly instruments for which there is no external rating available. Amounts due from clients are allocated to the category "no external rating".

Table 8: Credit risk: overdue loans without value adjustment, by maturity

In CHF 1,000	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	91 days or more	Total
Overdue positions without valuation adjustment by maturity 2013					
Due from clients				786	786
of which loans and advances				786	786
Accrued and deferred assets					0
Total at 31 December 2013	**0**	**0**	**0**	**786**	**786**
Overdue positions without valuation adjustment by maturity 2012					
Due from clients			39	215	254
of which loans and advances			39	215	254
Accrued and deferred assets			851	145	996
Total at 31 December 2012	**0**	**0**	**890**	**360**	**1,250**

As a general rule, a loan is classified as impaired when it is more than 90 days overdue. The Group has typically already recovered these loans or formed provisions for such positions and therefore such loans are not listed in table 8. Loans with a provision are disclosed note 14 and note 15.

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 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.

Identified risks are mainly 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 a 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. In addition to these activities that are carried out in the Group companies, there is a separate process-independent monitoring carried out by central units such as Group Compliance and Risk Control. Special attention is paid to a target-performance comparison analysis in the identification, evaluation, and handling of risks. The Board of Directors oversees the management of operational risk based on standardised reporting and adhoc information.

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NOTES TO THE CAPITAL MANAGEMENT

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. Valartis Group wants to give clients a sufficient degree of security in their banking relationship with the Group. At the same time, shareholders should participate in the success of the 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 steering process.

CAPITAL ADEQUACY

Valartis Group fulfils the capital adequacy requirements of Basel III. The disclosure of the information required under FINMA Circular 2008/22 is provided below. Under Basel III, 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, Valartis Group applies the International standard approach for credit risk, the standard approach for market risk, and the basic indicator approach for operational risk. By contrast with the calculation of equity under IFRS, goodwill – and also appreciation gains on intangible assets – are in particular deducted in the calculation of eligible capital, as are non-consolidated equity participations. In respect of capital investments of minority shareholders in fully consolidated group companies, the amount included in eligible capital cannot exceed the amount required for covering the proportional capital needs of the subsidiary. This entails stricter regulations in respect of eligible capital for Valartis Group, and likewise for many other institutions in the Swiss financial market.

MANAGEMENT OF OWN FUNDS

The regulatory capital adequacy requirements 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 International standard approach for credit risk. Valartis Group weights all positions on the basis of ratings from external agencies in accordance with Article 64 para. 4 of the Swiss Federal Ordinance on Capital Adequacy (CAO) for the calculation of required capital. 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 using the basic indicator approach. In addition to market risk, credit risk, and operational risk, the non-counterparty risk is also taken into account in determining the required regulatory capital.

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 regulatory capital was identical to the scope of consolidation used in preparing the consolidated financial statements, with the exception presented below. For further information, see Note 46 to the consolidated financial statements.

The equity participation in Darsi International Ltd. has been recognised under "Associated companies" in the consolidated financial statements since 31 December 2010. In contrast to the IFRS financial statements, Valartis Group uses a stricter definition of core capital and eliminates any accumulated appreciation gains from associated companies from core capital. As at the end of 2013, the corresponding correction amounted to CHF 13.2 million.

The reduction in the unrealised sales proceeds eliminated from the core capital in respect of the sale of the participation in Eastern Property Holding Ltd. amounted to CHF 38.7 million as at 31 December 2013.

ELIGIBLE CAPITAL AND CAPITAL ADEQUACY

As at the year-end, there was still one subordinated loan that fulfils the requirements set out in Art. 27 CAO. Since this loan has a remaining term to maturity of less than one year as at 31 December 2013, it may no longer be included in eligible capital. With the approval of the Liechtenstein FMA, in June 2013, Valartis Bank (Liechtenstein) AG repaid the subordinated loan of CHF 20 million from its original parent company, Vorarlberger Landes- und Hypothekenbank AG, ahead of schedule. At the same time, Valartis Bank (Liechtenstein) AG issued a EUR 10 million subordinated bond with a term to maturity of five years. 80 per cent of this – or CHF 9.8 million – was included in eligible capital as at 31 December 2013.

Required capital for credit risks resulting from due from banks, due from customers , financial investments and derivative financial instruments amounted to CHF 51.5 million as at 31 December 2013 (2012: CHF 61.9 million).

Required capital for non-counterparty risks stood at CHF 5.0 million (2012: 21.7 million). Required capital for market risk amounted to CHF 7.8 million (2012: 10.5 million). The decrease is mainly attributable to the reduction in the bond positions held in the trading portfolio and in the financial investments in 2013. The currency risk was also reduced using hedging.

The required capital for operational risk amounted to CHF 14.6 million (2012: CHF 14.6 million). As at 31 December 2013, the core capital ratio under Basel III was 15.2 per cent (2012: 13.3 per cent under Basel II). As at 31 December 2013, the total capital ratio under Basel III was 16.1 per cent (2012: 14.5 per cent under Basel II).

Table 9: Capital adequacy

In CHF 1,000	Method used	Details to eligible equity [4]	31.12.2013 Required Capital according to Basel III	31.12.2012 Required Capital according to Basel II
Eligible capital				
Equity			319,204	317,576
of which paid-in share capital		I)	5,000	5,000
of which disclosed reserves		II)	322,620	311,972
of which net proft for the current financial year		II)	434	10,230
of which deduction for treasury shares		III)	-8,850	-9,626
Deduction for non-controlling interests		IV)	-66,222	0
Deduction for dividends, as proposed by the Board of Directors		V)		-5,000
Deduction for goodwill and intangible assets		VI)	-49,490	-70,511
Other deduction from common equity tier 1 capital		VII)	-53,827	-61,360
Net eligible BIS common equity tier 1 capital (CET1)			**149,665**	**180,705**
Additional tier 1 capital (AT1)			0	0
Net eligible BIS tier 1 capital			**149,665**	**180,705**
Supplementary capital (tier 2)		VIII)	9,814	16,876
Other deduction from total capital			-1,016	-843
Net eligible regulatory capital (BIS tier 1 + 2)			**158,463**	**196,738**
Required capital				
Credit risk	BIS-Standard		51,447	61,946
of which market risks of equity instruments in banking book			5,524	5,910
Non-counterparty risks			4,968	21,748
Market risk	Standard		7,829	10,534
of which on interest rate instruments (general and specific market risk)			2,736	3,845
of which on equity instruments			2,446	2,332
of which on currencies and precious metals			1,698	2,898
of which on commodities			901	1,459
of which on options			48	0
Operational risk	Basic indicator		14,560	14,607
Total capital required			**78,804**	**108,835**
Capital ratios				
CET1 capital ratio (minimum requirement BIS Basel III: 3.5%) [1]			15.2%	13.3%
Tier 1 capital ratio (minimum requirement BIS Basel III: 4.5 %) [2]			15.2%	13.3%
Total capital ratio (minimum requirement BIS Basel III: 8 %) [3]			16.1%	14.5%

1) CET 1 capital adequacy target according to FINMA Circular 11/2 for Category 4 banks: 7.4 %.
2) Tier 1 capital adequacy target according to FINMA Circular 11/2 for Category 4 banks: 9.0%.
3) Overall capital adequacy target according to FINMA Circular 11/2 for Category 4 banks: 11.2%.
4) Furter details for the each position of capital see the roman numerals in table 10 and 11 reconciliation of eligible capital - assets and liabilities.

Table 10: Reconciliation of eligible capital – assets

In CHF 1,000	Note to eligible capital	31.12.2013
Cash		568,607
Cash deposits for reverse repurchase agreements		0
Due from banks		1,134,578
Due from clients		201,351
Trading portfolio assets		106,862
Financial assets available for sale		41,853
of which unrealised gains on financial assets available for sale (not eligible as CET 1)	VII)	1,928
Financial assets held to maturity		57,174
Other financial assets at fair value		36,742
of which other financial assets (not eligible as CET 1)	VII)	27,106
Associated companies		25,534
of which associated companies (not eligible as CET 1)	VII)	13,231
Property, plant and equipment		45,659
Accrued and deferred assets		9,355
Derivative financial instruments		477
Other assets		27,737
of which other assets (not eligible as CET 1)	VII)	11,562
Goodwill and other intangible assets		49,490
of which goodwill (not eligible as CET 1)	VI)	28,180
of which intangible assets (not eligible as CET 1)	VI)	21,310
Deferred tax assets		8,217
		2,313,636
Assets classified as held for sale		712,995
Total assets		**3,026,631**

Table 11: Reconciliation of eligible capital – liabilities

In CHF 1,000	Note to eligible capital	31.12.2013
Liabilities		
Liabilities excluding deferred tax liabilities		1,977,194
Deferred tax liabilities		14,697
of which deferred tax on goodwill		0
of which deferred tax on intangible assets		14,697
		1,991,891
Liabilities directly associated with the assets classified as held for sale		715,536
Total liabilities		**2,707,427**
of which subordinated liabilities, eligible as tier 2 capital		9,814
of which subordinated liabilities, eligible as additional tier 1 capital (AT1)		0
Shareholders' equity		
Share capital		5,000
of which eligible as CET 1	I)	5,000
Reserves	II)	286,644
– deduction for not eligible goodwill	VI)	-28,180
– deduction for not eligible intangible assets	VI)	-21,310
– deduction for not eligible revaluation surplus	VII)	-51,899
of which eligible as CET 1		185,255
Foreign exchange translation differences		-31,740
of which to deduct from CET 1	II)	-31,740
Unrealised income from financial assets available for sale	II)	1,928
– deduction for not eligible unrealised gains	VII)	-1,928
of which eligible as CET 1		0
Treasury shares		-8,850
of which to deduct from CET 1	III)	-8,850
Shareholders' equity of the shareholders of Valartis Group AG		**252,982**
Non-controlling interest	II)	66,222
– deduction for not eligible non-controlling interests	IV)	66,222
of which eligible as CET 1		0
Total shareholders' equity (including non-controlling interests)		**319,204**
of which expected dividends to deduct from CET 1	V)	
Total shareholders' equity (including non-controlling interests)		**319,204**
Total liabilities and shareholders' equity		**3,026,631**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. INCOME FROM INTEREST AND DIVIDENDS

In CHF 1,000	2013	2012
Interest income from banking business	5,711	7,000
Interest income from client business	3,961	4,745
Interest and dividend income from trading portfolio assets	4,518	4,250
Interest income from mortgage business	60	40
Interest and dividend income from financial assets available for sale	1,538	745
Interest income from financial assets held to maturity	9,261	10,930
Interest and dividend income from financial assets at fair value	78	79
Other interest income	4	23
Total interest and dividend income	**25,131**	**27,812**
Interest expense from banking business	-5,148	-5,731
Interest expense from client business	-2,228	-3,790
Other interest expense	-2	-8
Interest expense for issued debt instruments	-272	
Total interest expense	**-7,650**	**-9,529**
Total	**17,481**	**18,283**

2. INCOME FROM COMMISSION AND SERVICE FEES

In CHF 1,000	2013	2012
Commission income from loan business	650	641
Brokerage fees	7,907	7,834
Custody account fees	5,502	5,586
Commission on investment advice and asset management	27,753	24,196
Commission income from service fee business	12,327	8,180
Commission income from fiduciary business	601	1,398
Commission income from retrocession	805	558
Other commission income	9,003	7,945
Total income from commission and service fee business	**64,548**	**56,338**
Brokerage expense	-1,161	-1,598
Asset management/fund management by third parties	-6,369	-6,286
Commission expense to client intermediaries and representatives	-835	-1,341
Other securities trading expense	-8	-251
Commission expense on retrocession to third parties	-7,901	-3,269
Other commission and service fee expense	-1,147	-2,084
Total expense from commission and service fee business	**-17,421**	**-14,829**
Total	**47,127**	**41,509**

3. INCOME FROM TRADING

In CHF 1,000	2013	2012
Interest rate instruments	-6,283	2,900
Securities	1,671	-2,530
Currencies and precious metals	1,157	5,246
Funds	-184	676
Total	**-3,639**	**6,292**
thereof trading	492	6,046
thereof designated af fair value	-4,131	246

4. OTHER ORDINARY INCOME

In CHF 1,000	2013	2012
Income from associates	5,292	1,120
Income from real estate	506	646
Income from the sale of tangible and intangible assets	19	28
Income from the sale of financial assets afs	-160	
Income from sale of financial instruments held to maturity [1]	5,212	2,113
Income from Sale of participations		-531
Other income	1,831	1,248
Total	**12,700**	**4,624**
Income from financial assets available for sale		
Interest rate instruments	-160	
Income from the sale of financial assets available for sale	**-160**	**0**
Income from associates [2]		
Share in result	5,292	1,120
Income from associates	**5,292**	**1,120**

1) For the income from sale of financial instruments held to maturity see Note 17.
2) For income from associated companies see Note 19.

Loss from Sale of a Consolidated Participation

In line with the 2008 implemented "Private Banking Plus" strategy Valartis Group primarily focused its business activities on the private banking business within the last five years. On 4 July 2012, in this respect, Valartis Group AG sold its 100%-owned subsidiary Valartis Europe AG with a net asset value of CHF -2.7 million (total assets CHF 0.9 million) to its former Executive Management for one EUR. From this divestment a loss in the amount of CHF 0.531 million results in 2012.

5. PERSONNEL EXPENSE

In CHF 1,000	2013	2012 restated
Salaries and bonuses	-26,592	-26,137
Social security benefits	-3,660	-3,719
Contributions to occupational pension plans	-2,094	-853
Share-based payments	-746	-829
Other personnel expense	-1,018	-1,477
Total	**-34,110**	**-33,015**

6. GENERAL EXPENSE

In CHF 1,000	2013	2012 restated
Occupancy expense	-3,068	-2,989
IT and information expense	-3,322	-3,115
Office and business expense	-7,755	-8,161
Other general expense	-3,743	-3,103
Total	**-17,888**	**-17,368**

7. DEPRECIATION AND AMORTISATION

In CHF 1,000	2013	2012
Depreciation of property, plant and equipment	-5,741	-5,567
Amortisation of intangible assets	-4,803	-4,720
Total	**-10,544**	**-10,287**

8. VALUATION ADJUSTMENTS, PROVISIONS AND LOSSES

In CHF 1,000	2013	2012
Impairments	-122	-5,316
Impairment reversals	3,364	177
Losses	-392	287
Change in provisions	-1,433	-773
Total	**1,417**	**-5,625**

The impairments of CHF -5.3 million in 2012 primarily consisted of impairments of a Group company's financial assets in the amount of CHF -2.1 million and the impairment described in Note 19 related to the associated company Darsi in the amount of CHF -2.2 million.

The uncertainties regarding the valuation of the associated company Darsi were resolved in 2013, and the impairment of CHF 2.2 million was reversed. Other impairment reversals in the amount of CHF 1.2 million in 2013 relates to credit risk adjustments as disclosed in Note 15.

For information on the change in the provisions, we refer to Note 31.

9. INCOME TAXES

In CHF 1,000	2013	2012 restated
Current income taxes	-1,938	-1,553
Change in deferred taxes	2,800	3,773
Total	**862**	**2,220**
Net profit from continued operations before tax	12,544	4,413
Net profit from discontinued operations before tax	-12,972	3,567
Net profit before tax	**-428**	**7,980**
Expected income tax rate [1)]	14.7%	15.5%
Expected income taxes	63	-1,237
Difference between expected and actual tax rate	689	380
Prior-year adjustments	1,283	17
Tax-exempted income (incl. income from investments)	2,399	0
Not activated loss carry forwards	-1,299	2,452
Non-tax-deductible expenses	-2,515	-99
Other effects	242	707
Effective income taxes	**862**	**2,220**
Income tax as disclosed in the consolidated income statement	689	3,149
Income tax attributable to discontinued operations	173	-929
	862	**2,220**

1) The expected income tax rate is based on the ordinary income tax rate at the domicile of the parent company.

Deferred tax

In CHF 1,000	2013	2012 restated
Deferred tax assets		
Position at 1 January	13,762	15,885
Discontinued operations (Note 40)	-4,826	
Changes affecting the income statement	-862	-1,514
Changes not affecting the income statement		104
Change in scope of consolidation		-642
Foreign exchange translation differences	143	-71
Position at 31 December	**8,217**	**13,762**
Deferred tax liabilities		
Position at 1 January	20,184	25,645
Discontinued operations (Note 40)	-563	
Changes affecting the income statement	-4,875	-5,287
Changes not affecting the income statement	-229	-90
Foreign exchange translation differences	180	-84
Position at 31 December	**14,697**	**20,184**
Expiry of non-capitalised tax allowances for losses		
Within 1 year		3,117
From 1 to 5 years	3,351	2,015
After 5 years	2,072	546
Total	**5,423**	**5,678**
Expiry of non-capitalised tax allowances for losses from continued operations	-1,554	
Expiry of non-capitalised tax allowances for losses from discontinued operations		
Reconciliation deferred taxes		
Tax loss carry forwards	147	4,682
Financial instruments		223
Tax asset on Austrian corporation tax regime	8,070	8,737
Others		120
Total deferred tax assets	**8,217**	**13,762**
Contingent purchase consideration for Eastern Property Holdings	2,714	4,653
Financial Instruments		462
Intangible assets	4,800	8,207
Property, plant and equipment	5,520	5,558
Others	1,663	1,304
Total deferred tax liabilities	**14,697**	**20,184**

10. EARNINGS PER SHARE

	2013	2012 restated
Net profit attributable to the shareholders of Valartis Group AG (CHF 1,000)	-2,441	6,695
Net profit from continued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	10,358	4,057
Net loss/profit from discontinued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-12,799	2,638
Weighted average number of shares	5,000,000	5,000,000
less weighted average number of treasury shares	-410,573	-344,498
Undiluted weighted average number of shares	4,589,427	4,655,502
Outstanding share options, number of shares	0	0
Diluted weighted average number of shares	4,589,427	4,655,502
Earnings per share	in CHF	in CHF
Undiluted, attributable to shareholders of Valartis Group AG	-0.53	1.44
Diluted, attributable to shareholders of Valartis Group AG	-0.53	1.44
Earnings per share from continued operations		
Undiluted, attributable to shareholders of Valartis Group AG	2.26	0.87
Diluted, attributable to shareholders of Valartis Group AG	2.26	0.87
Earnings per share from discontinued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-2.79	0.57
Diluted, attributable to shareholders of Valartis Group AG	-2.79	0.57

11. SHARE-BASED PAYMENT

Content and process of determining remuneration and share ownership programmes are described in the Remuneration Report on page 70 ff. The presentation of the share-based payment in the annual financial statements is explained under the accounting principles in the "Notes to the Consolidated Financial Statements" (page 103).

Number	31.12.2013	31.12.2012
Holdings of rights at 1 January	177,852	153,249
Allotted rights (addition)	44,092	85,953
Granted during the year (reduction)	-41,109	-60,877
Forfeited rights (reduction)	-59,602	-473
Holdings of rights at 31 December	**121,233**	**177,852**
Fair value of the outstanding rights (in CHF 1,000) [1]	2,146	3,557
Average price of shares upon allotment, in CHF	20.63	21.47
In CHF 1,000		
Charged as personnel expense in the year under review	-1,043	-1,283
of which continued operations	-746	-829
of which discontinued operations	-297	-454
Estimated charge to personnel expense for the remaining vesting periods	-756	-1,033
Maximum anticipated charge to personnel expense for the remaining vesting periods	-928	-1,131

1) The fair value is based on the marekt value of the Valartis Group AG share.

12. EMPLOYEE PENSION PLAN

Although contributions are paid by the employer and employees in the case of Swiss pension plans, they are considered to be defined benefit plans owing to the guaranteed interest rate and the prescribed conversion rate. The Austrian pension scheme is also a defined benefit plan, while the Liechtenstein pension solution is a defined contribution plan.

There are no on-balance-sheet obligations or assets for the defined contribution plan.

The most recent actuarial calculations for the defined benefit plans were made as at 31 December 2013 with the following results across all plans:

Balance sheet items

In CHF 1,000	31.12.2013	31.12.2012 restated
Present value of pension liabilities	14,350	43,141
Market value of plan assets	14,142	43,511
Pension liabilities (+)/pension assets (–)	**208**	**-370**
Impact of the limitation as per IAS 19.64 b)	0	0
Total pension liabilities (+)/pension assets (–)	**208**	**-370**
whereof disclosed as other assets		-370
whereof disclosed as other liabilities	208	

Change in net liabilities/(assets) on the balance sheet

In CHF 1,000	2013	2012 restated
Net liabilities/(asset) at 1 January	-370	536
Defined benefit cost recognised in personnel expense	3,260	899
Defined benefit cost recognised in other comprehensive income	-3,213	604
Employer contributions	-2,086	-2,303
Paid out benefits	-108	-102
Foreign exchange loss/(gain)	1	-4
Net liabilities/(assets) at 31 December	**-2,516**	**-370**
whereof continued operations	208	
whereof discontinued operations	-2,724	

Costs and remeasurement for employee pension plan in income statement and comprehensive income

In CHF 1,000	2013	2012 restated
Components of pension costs in personnel expense		
Annual pension costs (service costs)	2,672	2,082
Plan amendments	622	-1,185
Net interest expense/(income)	-34	2
Pension costs for for defined benefit plans	**3,260**	**899**
Employer's pension expense for defined contribution plans	1,154	744
Total pension costs	**4,414**	**1,643**
whereof discontinued operations	2,320	790
Total Pensions costs recognised in personnel expense	**2,094**	**853**
Defined benefit cost recognised in other comprehensive income		
Actuarial loss/(gain) on liabilities	-1,657	4,889
Actuarial loss/(gain) on assets	-1,556	-4,285
Total remeasurements recognised in other comprehensive income	**-3,213**	**604**
whereof continued operations	-489	153
whereof discontinued operations	-2,724	451

Change in pension pension liabilities

In CHF 1,000	2013	2012 restated
Present value of pension liabilities at 1 January	43,141	35,829
Annual pension costs	2,672	2,082
Employee contributions	1,322	1,443
Interest on pension liabilities	929	1,011
Paid out benefits and vested benefits	-4,051	-897
Actuarial loss/(gains)	-1,657	4,889
of which from adjustment to financial assumptions	-774	2,795
of which from adjustment to demographic assumptions	0	2,349
of which from adjustment to experience-based assumptions	-883	-255
Foreign exchange loss/(gain)	86	-31
Plan amendments	622	-1,185
Discontinued operations	-28,714	
Present value of pension liabilities at 31 December	**14,350**	**43,141**

Change in pension assets

In CHF 1,000	2013	2012 restated
Market value of available pension assets at 1 January	43,511	35,293
Employee contributions	1,322	1,443
Employer contributions	2,086	2,303
Paid out benefits and vested benefits	-3,942	-795
Expected return on plan assets	963	1,009
Actuarial gain	1,556	4,285
Foreign exchange loss/(gain)	84	-27
Discontinued operations	-31,438	
Market value of available pension assets at 31 December	**14,142**	**43,511**

Main groups of the pension fund assets

Per cent	31.12.2013	31.12.2012
Liquidity	2.0	5.0
Bonds	45.0	46.0
Shares [1)]	37.0	32.0
Others	16.0	17.0

1) There are no treasury shares of Valartis Group AG in the pension fund assets.

Actuarial assumptions

In per cent	31.12.2013	31.12.2012
Discount rate (Switzerland)	2.25	2.00
Discount rate (Austria)	3.00	3.80
Expected return on plan assets Switzerland	2.25	2.00
Expected return on plan assets Austria	3.00	3.80
Expected rate of salary increases Switzerland	1.50	1.50
Expected rate of salary increases Austria	2.00	2.00
Return on retirement assets Switzerland	2.25	2.00
Return on retirement assets Austria	n/a	n/a
Pension adjustments Switzerland	0.00	0.00
Pension adjustments Austria	1.5-2.0	1.5-2.0

As in 2012, the demographic assumptions (e.g. probabilities of death, disability and turnover) are based on the BVG/LLP 2010 actuarial tables. These generational tables are based on observations of large pools of insured persons in Switzerland over several years. The increase in the discount rate from 2.0 per cent to 2.25 per cent for the Swiss plan has resulted in a TCHF 1,184 reduction in the defined benefit obligation, while the reduction in the discount rate from 3.8 per cent to 3 per cent in the case of the Austrian plan has increased the defined benefit obligation by TCHF 410.

Estimate of contributions for the following year (continued operations)

In CHF 1,000	2014
Employee contributions	164
Employer contributions	360

Sensitivity

The table below shows the change in the present value of the defined benefit obligation if one of the key assumptions for the actuarial calculation is reduced or increased cetris paribus by 50 basis points.

	31.12.2013	Proportion in per cent
Current actuarial calculation of the defined benefit obligation	14,350	100
Discount rate		
Increase of 50 basis points	-774	-5.4
Reduction of 50 basis points	881	6.1
Salary trend		
Increase of 50 basis points	275	1.9
Reduction of 50 basis points	-254	-1.8

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. CASH

In CHF 1,000	31.12.2013	31.12.2012
Cash balance	1,683	2,708
Sight deposits with central banks	566,924	629,655
Sight deposits with post offices	0	345
Total	**568,607**	**632,708**

14. DUE FROM BANKS AND CLIENTS

In CHF 1,000	31.12.2013	31.12.2012
Due from banks at sight	383,553	368,665
Due from banks, time deposits	751,118	688,217
Valuation allowances for credit risk	-93	-278
Total due from banks	**1,134,578**	**1,056,604**
Due from clients – secured by mortgage	6,832	12,492
Due from clients – other collateral	176,861	507,556
Due from clients – no collateral	19,504	23,137
Subtotal	**203,197**	**543,185**
Valuation adjustments for default risk	-1,846	-3,091
Total due from clients	**201,351**	**540,094**

15. VALUATION ADJUSTMENTS FOR CREDIT RISKS

In CHF 1,000	2013	2012
Position at 1 January	3,369	3,655
Discontinued operations	-112	0
Utilisation in accordance with designated purpose	-233	-254
Newly formed valuation adjustments for default risks	83	571
Release of valuation adjustments for default risks	-1,178	-588
Foreign currency translation	10	-15
Position at 31 December	**1,939**	**3,369**
of which on amounts due from banks	93	278
of which on amounts due from clients	1,846	3,091
Impaired loans		
Impaired loans (gross)	2,295	4,122
Estimated realisation proceeds from collateral	356	753
Impaired loans (net)	**1,939**	**3,369**
Specific valuation adjustments on impaired loans	1,939	3,369
Average impaired loans (gross)	3,160	4,368

16. TRADING PORTFOLIO ASSETS

In CHF 1,000	31.12.2013	31.12.2012
Debt instruments		
Debt instruments of public sector entities	0	31,382
Debt instruments of financial institutions	55,390	89,754
Debt instruments of companies	27,916	69,528
Total debt instruments	**83,306**	**190,664**
Equity instruments		
Total	**4,907**	**9,773**
Investment fund units		
Total	**18,649**	**10,144**
Total trading portfolio assets	**106,862**	**210,581**
of which lent out trading portfolio assets	646	7,024
of which eligible for repo transactions at a central bank (SNB/ECB)	7,133	114,099

17. FINANCIAL ASSETS

In CHF 1,000	31.12.2013	31.12.2012
Debt instruments		
Debt instruments of public sector entities	7,718	39,249
Debt instruments of financial institutions	11,361	30,022
Debt instruments of companies	3,540	19,195
Total debt instruments	**22,619**	**88,466**
Equity instruments		
Total	**17,943**	**16,526**
Investment fund units		
Total	**1,291**	**3,802**
Total financial assets available for sale	**41,853**	**108,794**
of which lent out	0	0
of which eligible for repo transactions at a central bank (SNB/ECB)	9,587	81,741
Debt instruments		
Debt instruments of public sector entities	4,553	21,835
Debt instruments of financial institutions	28,625	205,785
Debt instruments of companies	23,996	101,169
Total debt instruments	**57,174**	**328,789**
Total financial assets held to maturity	**57,174**	**328,789**
of which lent out	0	0
of which eligible for repo transactions at a central bank (SNB/ECB)	47,132	271,701

Sale of held-to-maturity positions

In 2013, bonds in the amount of CHF 158.8 million were sold from the part of the bond portfolio classified as "held to maturity", with CHF 5.2 million recognised in the income statement as gain from sale of financial instruments. This sale was made because the Swiss Financial Market Supervisory Authority FINMA imposed stricter capital adequacy requirements on Valartis Group in 2013. The sale of the bonds was necessary for the company to continue to comply with the capital adequacy requirements as of 31 December 2013. Due to the requirement being imposed specifically on Valartis Group (capital investments of minority shareholders in fully consolidated group companies is to be implemented earlier than required by Basel III) by the supervisory authority, the sale did not trigger a tainting event according to IFRS.

For the disclosure to the discontinued operations, we refer to Note 40.

In 2012, bonds in the amount of CHF 63.6 million were sold from the part of the bond portfolio classified as "held to maturity", with CHF 4.4 million recognised in the income statement as gain from sale of financial instruments. These sales were made to avoid a future breach of the new counterparty concentration regulations under Basel III. Due to the changes to the law under Basel III, the sale did not trigger a tainting event according to IFRS.

18. OTHER FINANCIAL ASSETS AT FAIR VALUE

In CHF 1,000	31.12.2013	31.12.2012
Debt instruments		
Debt instruments of companies	36,640	43,268
Total	**36,640**	**43,268**
Precious metals		
Total	**102**	**376**
Total other financial assets at fair value	**36,742**	**43,644**

The debt instruments of companies relate primarily to the contingent purchase price considerations from the sale of Eastern Property Holdings Ltd. (EPH) at 19 December 2012. Amounts to be paid depend on the succesful completion of the current development projects of EPH. In the current business year 2013 EPH recognised a fair value adjustment on the development project Scandinavia Land in St. Petersburg and on a loan to Vestive, the project entityfor the Turgenevskaya-Parking project. Due to this adjustment the fair value of the contingent purchase price considerations had to be reduced by CHF 6.0 million. This fair value adjustment was recognised in the income from trading (see Note 3). For information regarding the sale of participation on EPH, we refer to Note 19.

19. ASSOCIATED COMPANIES

In CHF 1,000	31.12.2013	31.12.2012
Position at 1 January	16,397	117,046
Additions	1,706	
Disposals [1]	-3	-99,351
Share in net profit	5,292	1,120
Impairment		-2,194
Reversal of impairment	2,194	
Foreign exchange translation differences	-52	-224
Position at 31 December	**25,534**	**16,397**
of which Darsi International Ltd.	11,020	8,368
of which Société des Centres Commerciaux Algérie SPA	12,808	8,026
of which others	1,706	3

1) The Eastern Property Holdings Ltd. was sold in 2012.

Darsi Group

The Darsi subgroup consists of the following two companies: Darsi International Ltd. and Société des Centres Commerciaux Algérie SPA (SCCA), Algiers. Via this subgroup, the Group is invested in the "Bab Ezzouar" shopping, leisure and business centre in Algeria. As at 31 December 2013, Valartis Group held 32.4 per cent of Darsi International Ltd., an investment company with its registered office in Tortola, British Virgin Islands (2012: 32.4 per cent). Darsi International Ltd. in turn holds a controlling majority stake of 53.9 per cent in Société des Centres Commerciaux Algérie SPA, the owner of the shopping centre in Algiers (2012: 53.9 per cent).

As an associated company, Darsi is accounted for in Valartis Group's financial statements using the equity method according to the International Financial Reporting Standards (IFRS) at the proportionate share of net assets. The net asset value is based among other things on valuation assumptions regarding the real estate of SCCA carried out by an external appraiser. Appraisals are based on assumptions, and these by their nature entail inherent risks. It is therefore possible that the realisable value in the event of a future disposal could deviate from these valuations.

The impairment of CHF 2.2 million recognised in 2012 owing to the negative developments at that time was reversed in 2013. This reversal was possible because of the positive development in rental income and a further reduction in the uncertainty regarding the valuation assumptions. This non-operating impairment is recognised in valuation adjustments, provisions and losses (Note 8).

The positive development in rental income and the profit led to an increase in equity of Darsi Group. Valartis Group's share in this increase of CHF 5.3 million is recognised as share in profit from associated companies.

Panariello Enterprises Ltd.

At the end of year 2013 ENR Russia Invest S.A. (ENR) closed a private equity transaction. In this transaction ENR transferred 51 per cent of Panariello Enterprises Ltd. to an other investor (until then ENR held 100 per dent). Panariello Enterprises Ltd. is now recognised as an associated company.

More details to the associated companies are disclosed in the table on the next page. Panariello Enterprises Ltd. is disclosed in the table in the column "other associated companies".

Eastern Property Holdings Ltd.

Based on the "Private Banking Plus" strategy that was implemented in 2008, Valartis Group focused its operational activities primarily on the private banking business within the last five years. In this connection, Valartis Group sold its strategic stake of 40.4 per cent in Eastern Property Holdings Limited (EPH) to Aurora Value Fund, Liechtenstein, as per 19 December 2012. EPH is a real estate company that invests in commercial properties in Eastern Europe. It combines the direct acquisition of properties with project development and the management of rental properties in Moscow and St Petersburg. It is listed on the SIX Swiss Exchange.

Valartis Group will receive a sales price of USD 110 million in cash over 4 years. A first part of USD 56.8 million was received by the Valartis Group in cash in 2012. The payment of the remaining sales price is split in three instalments and is partially connected to the successful completion of the current development projects of EPH.

A cash secured escrow account of CHF 16.7 million (previous year CHF 19.1 million) that will be paid until the end of 2014, is recognised as other asset. A first payment of CHF 1.5 Mio. from this escrow account has been received in 2013. The other two contingent purchase price considerations are valued at their fair value and are recorded as other financial assets at fair value. Future fair value changes will be recognised in the income statement. For the change in fair value of 2013 we refer to Note 18 and for the valuation method used to Note 45.

Details for associated companies

In CHF 1,000	Darsi International Group		Other associated companies	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Revenue	14,146	11,805	0	
Income from continued operations	8,714	4,384	0	
Other comprehensive income	0	0	0	
Total comprehensive income	8,714	4,384	0	
Dividends received	0	0	0	
Short-term assets	11,558	4,342	2,034	
Long-term assets	124,813	116,530	797	
Short-term liabilities	42,980	32,219	203	
Long-term liabilities	46,610	52,638	0	
Shareholder's equity at 31 December	46,781	36,015	2,628	
Non-controlling interest	12,808	10,220	0	
Total shareholders' equity (excluding non-controlling interests)	**33,973**	**25,795**	**2,628**	
Share of the Group	32.44%	32.44%	n/a	
Carrying amount of participation on Darsi Group	11,020	8,368		
Carrying amount of non-controlling interests on SCCA [1]	12,808	10,220		
Total carrying amount associated companies	23,828	18,588	1,288	3
Goodwill			418	0
Impairment		-2,194		0
Net carrying amount	23,828	16,394	1,706	3

1) As Valartis Group holds 100 % of the non-controlling interests on Société des Centres Commerciaux Algérie SPA (SCCA), this value is included in the carried value of associated company Darsi International Group.

20. PROPERTY, PLANT AND EQUIPMENT

In CHF 1,000	Fixtures in third-party properties	IT and telecom-munications	Other property, plant and equipment	Property	Software	Total
Acquisition costs						
Carrying amount at 31 December 2011	5,691	5,001	15,703	43,344	34,588	104,327
Change in scope of consolidation	-2	-118	-33		-34	-187
Investments		102	357	32	911	1,402
Divestments	-264	-531	-281		-83	-1,159
Foreign exchange translation differences	13		-5	-169	-174	-335
Carrying amount at 31 December 2012	**5,438**	**4,454**	**15,741**	**43,207**	**35,208**	**104,048**
Change in scope of consolidation						0
Investments		1,224	488		260	1,972
Divestments		-315	-226		-423	-964
Discontinued operations (Note 40)	-4,669	-2,016	-696		-4,501	-11,882
Foreign exchange translation differences	-47	-1	7	411	423	793
Carrying amount at 31 December 2013	**722**	**3,346**	**15,314**	**43,618**	**30,967**	**93,967**
Cumulative depreciation						
Carring amount at 31 December 2011	-2,239	-4,325	-8,871	-3,887	-25,985	-45,307
Change in scope of consolidation	2	86	23		28	139
Depreciation	-558	-368	-1,225	-634	-4,415	-7,200
Divestments	251	529	254	-32	62	1,064
Foreign exchange translation differences	-2	1	8	22	128	157
Carrying amount at 31 December 2012	**-2,546**	**-4,077**	**-9,811**	**-4,531**	**-30,182**	**-51,147**
Change in scope of consolidation						0
Depreciation	-57	-300	-1,188	-644	-3,552	-5,741
Divestments		313	226		423	962
Discontinued operations (Note 40)	2,082	1,950	671		3,317	8,020
Foreign exchange translation differences	22	1	-5	-59	-361	-402
Carrying amount at 31 December 2013	**-499**	**-2,113**	**-10,107**	**-5,234**	**-30,355**	**-48,308**
Net carrying amount at 31 December 2013	**223**	**1,233**	**5,207**	**38,384**	**612**	**45,659**
Net carrying amount at 31 December 2012	**2,892**	**377**	**5,930**	**38,676**	**5,026**	**52,901**

Additional information on property, plant and equipment

In CHF 1,000	31.12.2013	31.12.2012
Fire insurance value of real estate	45,915	64,074
Fire insurance value of other property, plant and equipment	22,319	26,007

Future liabilities from operating leases

In CHF 1,000	31.12.2013	31.12.2012
Future liabilities from operating leases		
Remaining term up to 1 year	220	1,837
Remaining term from 1 to 5 years	399	5,660
Remaining term over 5 years	0	0
Total	**619**	**7,497**

Operating leases

As at 31 December 2013, there were various operating leases for real estate and other property, plant and equipment, used for the business activities. The most important leases have extension options and termination clauses. The expense for operating leases is recorded in general expense, and amounts to CHF 2.0 million (2012: CHF 2.1 million).

21. ACCRUED AND DEFERRED ASSETS

In CHF 1,000	31.12.2013	31.12.2012
Management and performance fees	3,124	2,407
Accrued interest	4,053	16,878
Other accrued and deferred assets	2,178	9,926
Total	**9,355**	**29,211**

Decrease in accrued interest is due to sold financial instruments held to maturity in 2013. The reduction of other accrued and deferred assets is a result of the classification of the discontinued operations.

22. OPEN DERIVATIVE FINANCIAL INSTRUMENTS (TRADING INSTRUMENTS)

In CHF 1,000	Positive replacement values	Negative replacement values	Contract volume
Debt instruments			
Forward contracts		90	117,476
Total at 31 December 2013	**0**	**90**	**117,476**
Swaps		2,227	38,000
Options (OTC)		2,726	2,726
Total at 31 December 2012	**0**	**4,953**	**40,726**
Currencies/precious metals			
Forward contracts	433	770	102,719
Options (OTC)	44	44	2,393
Total at 31 December 2013	**477**	**814**	**105,112**
Forward contracts	585	504	263,360
Combined interest rate and currency swaps	653	574	386,795
Total at 31 December 2012	**1,238**	**1,078**	**650,155**
Others			
Forward contracts	0	0	0
Options (OTC)	0	0	0
Total at 31 December 2013	**0**	**0**	**0**
Forward contracts		129	94,512
Options (OTC)	5	0	9
Total at 31 December 2012	**5**	**129**	**94,521**
Total open derivative financial instruments at 31 December 2013	**477**	**904**	**222,588**
Total open derivative financial instruments at 31 December 2012	**1,243**	**6,160**	**785,402**

23. OTHER ASSETS

In CHF 1,000	31.12.2013	31.12.2012 restated
Value added tax and other indirect taxes	466	1,631
Other receivables, including accounts receivable	25,670	20,589
Asset from pension plans [1)]	0	370
Other assets	1,601	1,132
Total	**27,737**	**23,722**

1) See Note 12 employee pension plan.

The increase of other receivables is due to a performance fee which was recognised in 2013 of CHF 7.4 million (gross). After deduction of a portion of CHF 2.7 million recognised in accrued and deferred liabilities, which have to be paid to third parties, the performance fee amounts to CHF 4.7 million (net).

Part of the other receivables are contingent considerations on cash escrow accounts of CHF 16.7 million (previous year CHF 19.1 million) from the sale of EPH. The decrease is due to a first payment in 2013.

As at 31 December 2013, Valartis Asset Management SA, a wholly owned subsidiary of Valartis Group AG, recognised receivables and accrued/deferred assets of around CHF 3.6 million (2012: CHF 2.8 million) in respect of Société des Centres Commerciaux Algérie SPA (SCCA), an associated company of Valartis Group. SCCA is domiciled in Algeria. There are legal requirements that permit outward transfers of capital from Algeria only under certain conditions. Due to these conditions there is uncertainty with regard to the timing of the repayment of the receivables to Valartis Asset Management AG. In management's opinion, the conditions for the settlement of the receivables can be met by submitting the corresponding contract documents to the Banque d'Algérie. SCCA's payment plan envisages the amount due being settled in instalments at the end of 2016 and the end of 2017. Management has therefore concluded that there is no need for a valuation adjustment in respect of the amount due from SCCA.

24. GOODWILL AND OTHER INTANGIBLE ASSETS

In CHF 1,000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total
Acquisition costs				
Carrying amount at 31 December 2011	37,145	59,762	5,000	101,907
Investments		124		124
Divestments				0
Foreign exchange translation differences	-69	-226		-295
Carrying amount at 31 December 2012	**37,076**	**59,660**	**5,000**	**101,736**
Investments		43		43
Divestments				0
Discontinued operations (Note 40)	-9,063	-12,196	-5,000	-26,259
Foreign exchange translation differences	167	553		720
Carrying amount at 31 December 2013	**28,180**	**48,060**	**0**	**76,240**
Cumulative amortisation/impairment				
Carrying amount at 31 December 2011	0	-25,174	0	-25,174
Amortisation		-6,135		-6,135
Divestments				0
Foreign exchange translation differences		84		84
Carrying amount at 31 December 2012	**0**	**-31,225**	**0**	**-31,225**
Amortisation		-4,803		-4,803
Divestments				0
Discontinued operations (Note 40)		9,537		9,537
Foreign exchange translation differences		-259		-259
Carrying amount at 31 December 2013	**0**	**-26,750**	**0**	**-26,750**
Net carrying amount at 31 December 2013	**28,180**	**21,310**	**0**	**49,490**
Net carrying amount at 31 December 2012	**37,076**	**28,435**	**5,000**	**70,511**

Allocation and carrying amounts of goodwill and intangible assets

As of 31 December 2013, the carrying amounts of goodwill and intangible assets are allocated to the corresponding cash-generating units (CGUs) as follows:

2013 In CHF 1,000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable amount
Business segment «Private Clients»					
CGU Private Banking Austria	10'491	14'942		25'433	Fair value less cost of disposal
CGU Private Banking Liechtenstein	5'126	4'415		9'541	Fair value less cost of disposal
CGU Wealth Management [1)]					Fair value less cost of disposal
Subtotal	**15'617**	**19'357**	**0**	**34'974**	
Business segment «Institutional Clients»					
CGU Asset Management	10'583			10'583	Fair Value less cost of disposal
CGU Investment Management [1)]	1'980	1'953		3'933	Value in use
Subtotal	**12'563**	**1'953**	**0**	**14'516**	
Total	**28'180**	**21'310**	**0**	**49'490**	

1) Goodwill and intangible assets of the discontinued operations were attributed to CGU Wealth Management and to CGU Investment Management. The impairment charges in the business year 2013 for the discontinued operations are disclosed in Note 40.

The carrying amount of goodwill of CHF 28.2 million (previous year: CHF 37.1 million) can be primarily attributed to the merger of OZ Group with the MCT companies in 2005 as well as the acquisition of Valartis Bank (Austria) AG in 2008 and Valartis Bank (Liechtenstein) AG in 2009.

The intangible assets with finite useful lives amounting to CHF 21.3 million (2012: CHF 28.4 million) mainly include the long-term client relationships and networks of intermediaries gained from the acquisition of companies .

Impairment in 2013

The impairment tests carried out on the goodwill and intangible assets of the discontinued operations indicated an impairment requirement. As at 31 December 2013, goodwill was impaired by CHF 9.1 million and the intangible assets by CHF 6.2 million. Of this latter impairment, CHF 1.2 million was attributable to intangible assets with finite useful lives and CHF 5.0 million to intangible assets with indefinite useful lives.

2012 in CHF 1,000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable amount
Business segment «Private Clients»					
CGU Private Banking Austria	10'324	17'704		28'028	Fair value less cost of disposal
CGU Private Banking Liechtenstein	5'126	6'118		11'244	Fair value less cost of disposal
CGU Wealth Management	933	1'660		2'593	Fair value less cost of disposal
Subtotal	**16'383**	**25'482**	**0**	**41'865**	
Business segment «Institutional Clients»					
CGU Asset Management	10'583			10'583	Fair value less cost of disposal
CGU Investment Management	10'110	2'953	5'000	18'063	Value in use
Subtotal	**20'693**	**2'953**	**5'000**	**28'646**	
Total	**37'076**	**28'435**	**5'000**	**70'511**	

Impairment testing of goodwill and intangible assets

An impairment test is performed on the cash-generating units (CGUs) annually as of 31 December, or more frequently if there are indications of a potential impairment. The carrying amount of the CGU to which goodwill and intangible assets were allocated is compared with the recoverable amount. If the carrying amount of the CGU exceeds the recoverable amount, an impairment is recognised. Besides the impairment for discontinued operations disclosed in Note 40, the test did not indicate any impairment requirement.

Key assumptions for determining fair value less costs of disposal

Valartis Group continues to determine the recoverable amount of all CGUs, with the exception of the CGU Investment Management, based on fair value less costs of disposal. This is the amount that could be realised from the sale of a CGU in an arm's length transaction at market conditions between knowledgeable and willing parties after deduction of the costs of disposal.

In both Private Banking and Asset Management, sales prices are typically determined on the basis of the reported equity value plus an amount for intangible assets not included in the balance sheet (primarily the client list and goodwill). This additional amount is normally derived from a percentage of client assets under management, so-called AuM multipliers. Valartis Group thus determines fair value less costs of disposal on the basis of the valuation of client assets under management using AuM multipliers, minus costs of disposal. Valartis Group applied the following key assumptions in this regard:

- Expected net margin: The expected net margin corresponds to the average profitability of the asset class. For client assets that are recognised, this refers to a net interest margin. For client assets that are not recognised, this refers to a net commission margin. In Asset Management, it refers to the net commission margin of individual mandates. In Private Banking, the margin applied for recognised assets was 0.3 per cent to 0.8 per cent (2012: 0.5 per cent to 0.8 per cent). For assets that are not recognised, the margin was 0.2 per cent to 1.3 per cent (2012: 0.2 per cent to 1.3 per cent). In Asset Management, for mandates the margin was 0.5 per cent to 1.5 per cent (2012: 0.5 per cent to 1.7 per cent), depending on the contracts agreed with the client . The appropriateness of these assumptions is continually monitored using backtesting.
- Multiplication factor: The multiplication factor reflects how often a potential buyer is willing to pay the expected net margin on an annual basis. Assumptions are based on management expectations and take into consideration the wording and term of the contracts. Depending on the asset class or mandate in question, a multiplication factor of 1.1 to 2.3 was applied (2012: 1.1 to 2.3).
- AuM multiplier: The AuM multiplier is determined by multiplying the expected net margin by the multiplication factor. In the 2013 financial year, depending on the asset class the AuM multipliers for Private Banking ranged between 0.3 per cent and 2.0 per cent (2012: 0.3 per cent to 2.3 per cent). For Asset Management, the multipliers were between 0.8 per cent and 3.5 per cent (2012: 0.8 per cent to 3.9 per cent). The appropriateness of the AuM multipliers used was validated using market comparisons. For this, peer group analyses were conducted with the AuM multipliers of companies with comparable busi-

ness activities, these multipliers being derived from publicly available information.
– Costs of disposal: Management uses empirical values when calculating the expected costs of disposal. The costs derived from comparable transactions are between CHF 0.7 million and CHF 0.9 million (2012: CHF 0.7 million to CHF 0.9 million)-

Based on the input parameters of the valuation method used, the measurement of fair value is categorised under Level 3.

The fair values less costs of disposal determined using these AuM multipliers are higher than the carrying amount of all CGUs, and are shown in the table above. The sensitivity analyses carried out showed that the carrying amounts also remain covered in the event of possible changes to the assumptions. Management is of the opinion that, as of the balance sheet date, no reasonable possible change in the assumptions could lead to a situation in which the carrying amount of a CGU would exceed its recoverable amount.

Key assumptions for determining value in use

The recoverable amount of the CGU Investment Management is determined on the basis of a calculated value in use, applying cash flow projections and the discounted cash flow method. The CGU Investment Management contains corporate finance services. The cash flow projections are based on the following assumptions:
– Development of service fee business: For the cash flow projections, management has used the 2014 annual budget as well as the three-year medium-term plan.
– Cost development: Management has projected the corresponding costs based on the actual operating expenses of the CGU's activities.
– Discount rate: In line with the capital asset pricing model (CAPM), a weighted average cost of capital of 8.8 per cent is used for discounting cash flows (2012: 8.8 per cent).
– Growth rate estimates: The approach used to determine the key assumptions and the associated growth rates is based on management's knowledge and appropriate expectations of future business development. Internal and external market information are used for this purpose. To this end, the Group uses historical information, taking into account the current and expected market situations. Cash flow projections outside of the three-year period are taken into consideration by means of a perpetual annuity. A growth rate for the perpetual annuity is not taken into consideration given the strong dependence of the cash flows on external factors.

It is possible that the results actually achieved may deviate from the key assumptions and that the assumptions could be changed in view of altered assessments of the development of relevant markets and business. Such deviations can arise from changes to factors such as products, client segments, the income situation, the required type and utilisation of human resources, changes in employee remuneration, the implementation of known or new business initiatives and other internal or external factors. These changes can affect the value of the CGUs and hence increase or decrease the difference between the carrying amount and the recoverable amount, even leading to a partial impairment of goodwill.

The value in use determined using cash flow projections and the discounted cash flow method was higher than the carrying amount of the CGU Investment Management. The performed sensitivity analyses showed that the carrying amounts also remain covered in the event of possible changes to the assumptions. Sensitivity analyses have been performed for the discount rates and growth rates applied in the three-year financial plan. These analyses did not indicate any impairment. In light of the general market situation, however, there are some uncertainties involved in determining the assumptions used.

25. ASSETS PLEDGED OR ASSIGNED TO SECURE OWN LIABILITIES AND ASSETS UNDER RESERVATION OF OWNERSHIP

In CHF 1,000	31.12.2013		31.12.2012	
	Market value	Effective commitment	Market value	Effective commitment
Amounts due from banks and clients	8,222	8,222	11,868	5,913
Securities and precious metals in the trading portfolio			12,646	
Financial instruments	5,790	5,790	228,133	184,628
Total	**14,012**	**14,012**	**252,647**	**190,541**

The assets have been pledged for lombard loans of central banks, stock exchange security deposits, OTC contracts as well as for laibilites to customers and banks. The transactions are carried out at fair market conditions.

26. LENDING AND REPURCHASE TRANSACTIONS WITH SECURITIES

In CHF 1,000	31.12.2013 [1]	31.12.2012
Carrying amount of receivables from cash deposits in securities borrowing and reverse repurchase transactions	0	45,760
Carrying amount of liabilities from cash deposits in securities lending and repurchase transactions	0	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	0	7,024
of which with unlimited right to resell or repledge (recognised in trading book)	0	7,024
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	0	47,308
Fair value of all such securities that have been resold or repledged	0	0

1) All lending and repurchase transactions with securities are related to discontinued operations.

27. DUE TO CLIENTS

In CHF 1,000	31.12.2013	31.12.2012
Due to clients in the form of savings and investments	256	258
Due to clients precious metals	1,465	
Other amounts due to clients	1,911,553	2,541,744
Total	**1,913,274**	**2,542,002**

28. ACCRUED AND DEFERRED LIABILITIES

In CHF 1,000	31.12.2013	31.12.2012
Trailer fees	3,151	2,973
Accrued salaries, bonuses and social security benefits	2,527	3,469
Other accrued and deferred liabilities	8,303	10,980
Total	**13,981**	**17,422**

29. OTHER LIABILITIES

In CHF 1,000	31.12.2013	31.12.2012
Value added tax and other indirect tax liabilities	1,483	2,370
Liabilities to the company pension fund [1)]	208	0
Other liabilities including creditors	708	1,420
Other	1,149	1,520
Total	**3,548**	**5,310**

1) See Note 12, employee pension plan.

30. ISSUED DEBT INSTRUMENTS

In CHF 1,000	31.12.2013	31.12.2012
Private placements	12,268	0
Total issued debt instruments	12,268	0
of which subordinated	12,268	0

Detailed overview of long-term debt instruments issued

2013 In CHF 1,000	Year of issue	Interest rate nominal	Interest rate effective	Maturity	Currency	Nominal amount in 1,000 EUR	Carrying amount in 1'000 CHF
Valartis Bank (Liechtenstein) AG	2013	4 %	4 %	14.6. 2018	EUR	10,000	12,268

In 2013 Valartis Bank (Liechtenstein) AG repaid the subordinated loan of CHF 20 million from its former parent company, Vorarlberger Landes- und Hypothekenbank AG, ahead of schedule. Simultaneously with the repayment, a subordinated debt instrument in the amount of EUR 10 million was issued via a private placement. In respect of the issued debt securities, there were no late payments or breaches of contract in the year under review.

31. PROVISIONS

In CHF 1,000	Provision for non payment risks (delcredere and country risks)	Provision for other business risks	Provision for litigation and tax risks	Other provisions	Total according to balance sheet 2013	Total according to balance sheet 2012
Position at 1 January	560	0	1,550	435	2,545	2,883
Utilised/released in accordance with designated purpose	0	0	-28	-458	-486	-549
Newly formed and charged to income statement	0	1,055	378		1,433	773
Released and credited to income statement	-560	0	-686		-1,246	-539
Discontinued operations (Note 40)			-213		-213	
Foreign exchange translation differences	0	-3	43	23	63	-23
Position at 31 December	**0**	**1,052**	**1,044**	**0**	**2,096**	**2,545**
Maturity of the provisions						
Within one year		1,052	1,044		2,096	2,059
More than one year						486

Provisions for discontinued operations in the amount of CHF 0.2 million are classified separately . On a comparable basis, the provisions have reduced by around CHF 0.2 million year-on-year.

The provisions recognised under "Provision for non payment risks" in connection with the sale of Valartis Bonus Card AG were released and credited to the income statement in 2013 since the existing escrow agreements were assigned to Valartis in full and no further costs can arise.

The increase in provisions under "Provision for other business risks" is among other things attributable to closure costs for the branch in Singapore and claims of former employees.

As part of its normal business activities, Valartis Group is exposed to a wide range of legal risks. These include in particular risks relating to litigation and tax law. Valartis Group recognises provisions for such litigation and tax risks if the Group's management and its legal advisers are of the opinion that an outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount.

The provision of TCHF 1'044 recognised at 31 December 2013 related primarily to tax risks.

The provision of CHF 0.4 millions recognized in previous year in connection with the sale of Eastern Property Holdings Ltd. was used in 2013 for the settlement of transaction costs.

The amount of the provisions and their timing are by their nature subject to uncertainty. However, these uncertainties are evaluated as being low since it was possible to reliably estimate the individual amounts and the majority of the recognised provisions will probably become due within one year.

In 2013 there were no contingent liabilities as set down in IAS 37 (2012: none).

32. SHARE CAPITAL

In CHF	31.12.2013	31.12.2012
Share capital, fully paid-in	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)	55.1	55.6

For the financial year 2013, the Board of Directors propose to the shareholder's meeting to pay no dividend (previous year: CHF 1.00 per share).

33. TREASURY SHARES

Number	31.12.2013	31.12.2012
Position at 1 January	434,567	382,415
Purchases	41,618	319,818
Sales	-70,145	-267,666
Position at 31 December	**406,040**	**434,567**

In 2013 41,618 shares were bought at CHF 19.25 each, while 70,145 shares with a historical average price of CHF 22.15 were sold at an average price of CHF 21.90 each. In 2012, 319,818 shares were bought at CHF 17.58 each and 267,666 shares were sold at CHF 23.62 each. As at the balance sheet date, Valartis Group had 406,040 treasury shares at a weighted average acquisition price of CHF 21.80 per share.

34. CONSOLIDATED STATEMENT OF FINANCIAL POSITION BY CURRENCY

2013 In CHF 1,000	CHF	EUR	USD	Others	Total Currencies
Assets					
Cash	114,841	453,624	120	22	568,607
Due from banks	29,857	195,512	770,864	138,345	1,134,578
Due from clients	30,725	55,245	73,983	41,398	201,351
Trading portfolio assets	27,450	6,092	72,990	330	106,862
Financial assets available for sale	19,343	13,532	8,978		41,853
Financial assets held to maturity	6,251	43,860	7,063		57,174
Other assets at fair value		102	36,640		36,742
Associated companies		1,706		23,828	25,534
Property, plant and equipment	21,567	23,798		294	45,659
Accrued and deferred assets	4,402	2,153	2,613	187	9,355
Derivative financial instruments	10	161	169	137	477
Other assets	403	10,267	16,742	325	27,737
Goodwill and other intangible assets	24,056	25,433		1	49,490
Deferred tax assets	78	8,139			8,217
On-balance-sheet assets	**278,983**	**839,624**	**990,162**	**204,867**	**2,313,636**
Assets classified as held for sale					712,995
Total Assets					**3,026,631**
Claims arising from forex spot and forward trans.	3,522	7,205	16,543	15,221	42,491
Total at 31 December 2013	**282,505**	**846,829**	**1,006,705**	**220,088**	**3,069,122**
Liabilities and shareholders' equity					
Due to banks	740	24,883		3,853	29,476
Due to clients	134,079	707,392	898,264	173,539	1,913,274
Derivative financial instruments	465	5	101	333	904
Current income taxes	1,642			5	1,647
Accrued and deferred liabilities	7,247	6,240	83	411	13,981
Other liabilities	1,197	2,249	53	49	3,548
Issued debt instruments		12,268			12,268
Provisions	999	1,070	27		2,096
Deferred tax liabilities	1,135	10,402	3,160		14,697
Shareholders' equity	319,204				319,204
On-balance-sheet liabilities and equity	**466,708**	**764,509**	**901,688**	**178,190**	**2,311,095**
Liabilities classified as held for sale					715,536
Total Liabilities and equity					**3,026,631**
Obli. arising from forex spot and forward trans.	3,520	7,203	16,527	15,219	42,469
Total at 31 December 2013	**470,228**	**771,712**	**918,215**	**193,409**	**3,069,100**
Net position per currency 31 December 2013	**-187,723**	**75,117**	**88,490**	**26,679**	**2,563**

2012 [1] In CHF 1,000	CHF	EUR	USD	Others	Total Currencies
Assets					
Cash	279,566	352,732	205	205	632,708
Cash deposits for reverse repurchase agreements			45,760		45,760
Due from banks	65,091	199,802	601,169	190,542	1,056,604
Due from clients	61,797	68,604	107,611	302,082	540,094
Trading portfolio assets	28,964	75,901	103,432	2,284	210,581
Financial assets available for sale	16,813	86,007	5,974		108,794
Financial assets held to maturity	17,600	280,790	19,011	11,388	328,789
Other assets at fair value			43,267	377	43,644
Associated companies				16,397	16,397
Property, plant and equipment	26,978	25,454		469	52,901
Accrued and deferred assets	6,968	17,022	3,378	1,843	29,211
Derivative financial instruments	881		317	45	1,243
Other assets	1,201	2,647	19,127	747	23,722
Goodwill and other intangible assets	34,815	35,696			70,511
Deferred tax assets	4,802	8,960			13,762
On-balance-sheet assets	**545,476**	**1,153,616**	**949,251**	**526,378**	**3,174,721**
Claims arising from forex spot and forward trans.	232,167	70,383	294,901	56,336	653,787
Total at 31 December 2012	**777,643**	**1,223,999**	**1,244,152**	**582,714**	**3,828,508**
Liabilities and shareholders' equity					
Due to banks	45,740	216,369	325	1,437	263,871
Cash deposits for repurchase agreements					0
Due to clients	164,010	729,239	1,092,541	556,212	2,542,002
Derivative financial instruments	2,978	2,776	365	41	6,160
Current income taxes	1,239			16	1,255
Accrued and deferred liabilities	11,011	5,220	888	303	17,422
Other liabilities	2,131	2,905	91	182	5,309
Provisions	1,573	514	458		2,545
Deferred tax liabilities	4,944	10,576	4,665		20,185
Shareholders' equity	315,972				315,972
On-balance-sheet liabilities and equity	**549,598**	**967,599**	**1,099,333**	**558,191**	**3,174,721**
Obli. arising from forex spot and forward trans.	247,667	245,143	135,816	25,030	653,657
Total at 31 December 2012	**797,265**	**1,212,742**	**1,235,149**	**583,221**	**3,828,378**
Net position per currency 31 December 2012	**-19,622**	**11,256**	**9,003**	**-507**	**130**

1) Restated due to IAS 19 revised.

35. MATURITY STRUCTURE OF ASSETS, LIABILITIES AND OFF-BALANCE-SHEET ITEMS

2013 In CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash	568,607						568,607
Due from banks	371,609	11,850	393,839	357,280			1,134,578
Due from clients	102,098		18,842	23,208	28,572	28,631	201,351
Trading portfolio assets	106,862						106,862
Financial assets available for sale	17,722	737	1,167	1,357	20,134	736	41,853
Financial assets held to maturity			4,918	18,705	33,551		57,174
Other financial assets at fair value	102				36,640		36,742
Associated companies	23,829					1,705	25,534
Property, plant and equipment				335	5,239	40,085	45,659
Accrued and deferred assets	5,172		1,361	1,895	916	11	9,355
Derivative financial instruments			460	17			477
Other assets	1,735	180	318	24,236	1,119	149	27,737
Goodwill and other intangible assets				1,346	17,769	30,375	49,490
Deferred tax assets				873	2,581	4,763	8,217
Total at 31 December 2013	**1,197,736**	**12,767**	**420,905**	**429,252**	**146,521**	**106,455**	**2,313,636**
Liabilities							
Due to banks	3,909			24,956	411	200	29,476
Due to clients	1,799,975	5,719	64,070	26,226	15,110	2,174	1,913,274
Derivative financial instruments			889	15			904
Current income taxes	1,517		129	1			1,647
Accrued and deferred liabilities	7,134		2,208	4,639			13,981
Other liabilities	2,547		148	601	41	211	3,548
Issued debt instruments					12,268		12,268
Provisions	226			1,870			2,096
Deferred tax liabilities	4,820		1	144	3,741	5,991	14,697
Total at 31 December 2013	**1,820,128**	**5,719**	**67,445**	**58,452**	**31,571**	**8,576**	**1,991,891**
Contingent liabilities	8,396	5,636	900	368	453	1,503	17,256
Irrevocable commitments							0
Total at 31 December 2013	**8,396**	**5,636**	**900**	**368**	**453**	**1,503**	**17,256**

2012 [1)] In CHF 1,000	Demand	Subject to notice	Due within 3 months	Due within 3 to 12 months	Due within 1 to 5 years	Due after 5 years	Total
Assets							
Cash	632,708						632,708
Cash deposits for reverse repurchase agreements			45,760				45,760
Due from banks	367,022	1,643	382,126	293,572	12,241		1,056,604
Due from clients	103,777	1,240	136,868	28,830	24,284	245,095	540,094
Trading portfolio assets	210,581						210,581
Financial assets available for sale	19,382		35,714	11,775	41,923		108,794
Financial assets held to maturity			10,931	38,204	252,338	27,316	328,789
Other financial assets at fair value	377				43,267		43,644
Associated companies						16,397	16,397
Property, plant and equipment						52,901	52,901
Accrued and deferred assets	19,785		7,514	61	1,570	281	29,211
Derivative financial instruments	1,243						1,243
Other assets	1,427		1,335	20,211	749		23,722
Goodwill and other intangible assets						70,511	70,511
Deferred tax assets	4,826			994	3,179	4,763	13,762
Total at 31 December 2012	**1,361,128**	**2,883**	**620,248**	**393,647**	**379,551**	**417,264**	**3,174,721**
Liabilities							
Due to banks	5,207		35,866	2,547	219,871	380	263,871
Cash deposits for repurchase agreements							0
Due to clients	2,014,199	2,645	219,957	50,952	15,246	239,003	2,542,002
Derivative financial instruments	6,160						6,160
Current income taxes	1,189			66			1,255
Accrued and deferred liabilities	12,749		2,007	1,632	1,034		17,422
Other liabilities	4,797		159	323		30	5,309
Provisions	1,459			600	486		2,545
Deferred tax liabilities	6,517		2	2,218	4,331	7,117	20,185
Total at 31 December 2012	**2,052,277**	**2,645**	**257,991**	**58,338**	**240,968**	**246,530**	**2,858,749**
Contingent liabilities	18,044	7,488	51	3,867	3,108	1,087	33,645
Irrevocable commitments	0	946	0	0	0	0	946
Total at 31 December 2012	**18,044**	**8,434**	**51**	**3,867**	**3,108**	**1,087**	**34,591**

1) Restated due to IAS 19 revised.

36. ASSETS AND LIABILITIES BY DOMESTIC AND NON-DOMESTIC POSITIONS

In CHF 1,000	Domestic	Non-domestic	Total
Assets			
Cash	114,787	453,820	568,607
Due from banks	185,831	948,747	1,134,578
Due from clients	20,367	180,984	201,351
Trading portfolio assets	62,687	44,175	106,862
Financial assets available for sale	17,722	24,131	41,853
Financial assets held to maturity		57,174	57,174
Other financial assets at fair value		36,742	36,742
Associated companies		25,534	25,534
Property, plant and equipment	22	45,637	45,659
Accrued and deferred assets	170	9,185	9,355
Derivative financial instruments	281	196	477
Other assets	268	27,469	27,737
Goodwill and other intangible assets	14,516	34,974	49,490
Deferred tax assets	78	8,139	8,217
Total at 31 December 2013	**416,729**	**1,896,907**	**2,313,636**
Assets classified as held for sale			712,995
Total assets at 31. Dezember 2013			**3,026,631**
Total at 31 December 2012 [1)]	**663,544**	**2,511,177**	**3,174,721**
Liabilities and shareholders' equity			
Due to banks	117	29,359	29,476
Due to clients	36,161	1,877,113	1,913,274
Derivative financial instruments	628	276	904
Current income taxes	35	1,612	1,647
Accrued and deferred liabilities	648	13,333	13,981
Other liabilities	283	3,265	3,548
Issued debt instruments		12,268	12,268
Provisions	800	1,296	2,096
Deferred tax liabilities		14,697	14,697
Shareholders' equity	319,204		319,204
Total at 31 December 2013	**357,876**	**1,953,219**	**2,311,095**
Liabilities classified as held for sale			715,536
Total liabilities at 31. Dezember 2013			**3,026,631**
Total at 31 December 2012 [1)]	**448,934**	**2,725,787**	**3,174,721**

1) Restated due to IAS 19 revised.

37. ASSETS BY COUNTRY OR REGION

	31.12.2013		31.12.2012	
	CHF 1,000	Proportion in per cent	CHF 1,000	Proportion in per cent
Switzerland	416,729	18.0%	663,544	21.0%
Europe	1,739,833	75.2%	2,235,380	70.4%
North America	37,315	1.6%	121,246	3.8%
Africa	42,692	1.8%	25,862	0.8%
Caribbean	60,154	2.6%	111,381	3.5%
Other	16,913	0.8%	17,308	0.5%
Total	**2,313,636**	**100.0%**	**3,174,721**	**100.0%**

38. SHAREHOLDER STRUCTURE

In per cent	31.12.2013	31.12.2012
MCG Holding S.A., Baar ZG	50.2	49.4
INTEGRAL Stiftung für die berufliche Vorsorge, Thusis GR	5.1	5.1
Kreissparkasse Biberach, Biberach, Germany	3.0	3.0
Gustav Stenbolt and Philipp LeibundGut	0.6	0.0

The share capital consists of bearer shares. The owners of the shares are only known to Valartis Group if they either individually or collectively exceed the threshold and report according to the Stock Exchange Act.

The beneficial owners of MCG Holding S.A. are Gustav Stenbolt, Geneva, Tidesea Ltd., Baar (100 per cent controlled by Gustav Stenbolt, Geneva), Philipp LeibundGut, Zurich, Pierre Michel Houmard, Geneva, and Tudor Private Portfolio LLC, Greenwich, USA. The following are deemed to be holders of qualified participations : a) Gustav Stenbolt, who holds 73.6 per cent of the voting rights (65.4 per cent of the share capital) of MCG Holding S.A. (partly held through Tidesea Ltd., Baar), b) Philipp LeibundGut, who holds 14.3 per cent of the voting rights (18.7 per cent of the share capital) of MCG Holding S.A., and c) Tudor Private Portfolio LLC, Greenwich, USA, which holds 11.8 per cent of the voting rights (15.4 per cent of the share capital) of MCG Holding S.A.

Tudor Private Portfolio LLC is wholly controlled by Tudor Group Holdings LLC, Greenwich, USA, which is in turn controlled by Paul Tudor Jones of Greenwich, USA. Pierre Michel Houmard holds 0.3 per cent of the voting rights (0.5 per cent of the share capital) of MCG Holding S.A.

The shares held directly by Gustav Stenbolt and Philipp LeibundGut as at 31 December 2013 stem from the bonus schemes run by Valartis for Group Executive Management and employees.

39. NETTING AGREEMENTS

To reduce credit risks related to derivative contracts, repurchase and reverse-repurchase agreements and securities lending and borrowing agreements, the Valartis Group enters into master netting agreements or similar netting arrangements with its counterparties. These netting agreements include derivatives clearing agreements e.g. ISDA Master Netting Agreements and derivatives market rules.

The netting agreements enable Valartis Group to protect itself against loss in the event of a possible insolvency or other circumstances that result in a counterparty being unable to meet its obligations. In such cases, the netting agreements provide for the immediate net settlement of all financial instruments covered by the agreement. The right to off-set essentially only becomes enforceable following a default event or other circumstances not expected to arise in the normal course of business. The financial instruments covered by a netting agreement do therefore not meet the requirements for balance sheet off-setting, which is why the book values of the corresponding financial instruments are not off-set on the balance sheet.

Financial assets with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral received	Net exposure
Derivative financial instruments	477		477	455		22
Total 31 December 2013	**477**	**0**	**477**	**455**	**0**	**22**
Reverse-repurchase agreements	45,760		45,760		45,760	0
Derivative financial instruments	1,243		1,243	494	179	570
Total 31 December 2012	**47,003**	**0**	**47,003**	**494**	**45,939**	**570**

Financial liabilities with netting agreements

in CHF 1,000	Amount before balance sheet off-setting	Balance sheet off-setting	Book value	Financial instruments not off-set	Collateral provided	Net exposure
Derivative financial instruments	904		904	455	359	90
Total 31 December 2013	**904**	**0**	**904**	**455**	**359**	**90**
Derivative financial instruments	6,160		6,160	494	1,411	4,255
Total 31 December 2012	**6,160**	**0**	**6,160**	**494**	**1,411**	**4,255**

40. DISCONTINUED OPERATIONS

As part of the strategic realignment of the business model and structural streamlining, the Board of Directors of Valartis Group AG decided on 26 August 2013 to divest Valartis Bank AG, Switzerland. This decision was then subsequently communicated. There were already indications in the first half of 2013 that despite the realigned front organisation, it would not be possible to improve the ability of Valartis Bank AG, Switzerland, to acquire clients to the planned extent, and that the bank would also be unable to achieve the necessary critical volume in the foreseeable future. 2014 saw a further increase in the costs for the Swiss bank and for the measures required due to the mounting regulatory pressure, and margins remained under pressure. This resulted in a further significant rise in the critical mass required for a Swiss bank.

The Board of Directors of Valartis Group AG has from the outset sought to achieve the best possible solution for shareholders,- clients and employees, and expects to be able to implement the targeted solution in the course of 2014.

Valartis Bank AG, Switzerland, and Valartis Wealth Management AG are thus classified as discontinued operations as at 31 December 2013.

Results of discontinued operations

In CHF 1,000	2013	2012
Income statement of discontinued operations		
Operating income	33,684	36,410
Administrative expense	-27,745	-29,145
Gross income	**5,939**	**7,265**
Depreciation/amortisation of property, plant and equipment and intangible assets	-2,876	-3,048
Impairment loss recognised on the remeasurement to fair value less costs of disposal	-15,308	
Valutation adjustments, provisions and losses	-727	-650
Net loss/profit from discontinued operations before tax	**-12,972**	**3,567**
Income taxes	173	-929
Net loss/profit from discontinued operations	**-12,799**	**2,638**
Other comprehensive income of discontinued operations		
Unrealised gains/losses from financial assets available for sale	219	-548
Deferred taxes on unrealised gains/losses from financial assets available for sale	-44	110
Employee participation plan	-64	336
Remeasurement of defined benefit plans	2,724	-564
Deferred taxes on remeasurement of defined benefit plans	-422	113
Total recognised in other comprehensive income	**2,413**	**-553**
Cash flow from discontinued operations		
Cash flow from operating activities	-239,410	-90,475
Cash flow from investment activities	87,335	54,931
Cash flow from financing activities	0	-15,000
Net cash flow	**-152,075**	**-50,544**

Earnings per share – discontinued operations

In CHF	2013	2012
Undiluted earnings attributable to shareholders of Valartis Group AG	-2.79	0.57
Diluted earnings attributable to shareholders of Valartis Group AG	-2.79	0.57

Impairments

Immediately before the classification of Valartis Bank AG, Switzerland, and Valartis Wealth Management AG as discontinued operation, the carrying amounts of their assets and liabilities have been measured in accordance with applicable IFRS. No impairment loss was identified. Assets and liablities of discontinued operations shall be measured at the lower of carrying amounts and fair value less costs to sell. Following the classification as discontinued operation an impairment test has been performed. The impairment test resulted in an impairment loss for Goodwill and other Intangible assets. Based on the inputs used, the fair value measurement has been classified as a level 3-fair value. The impairment amounts to CHF 9.1 Mio. for goodwill and CHF 6.2 Mio. for other intangible assets. The impairment loss has been recognised within net profit from discontinued operations in the consolidated income statement.

Sale of Held to Maturity Investments

In 2013, the bond portfolio classified as held to maturity in the amount of CHF 75.9 million was sold and a profit of CHF 7.5 million was realised. This sale was made due to the stricter capital adequacy requirements imposed by FINMA (see also Note 17).

Assets and liabilties classified as held for sale

In CHF 1'000	2013
Assets classified as held for sale	
Cash	168,144
Due from banks and clients	491,877
Trading portfolio assets	31,142
Financial assets available for sale	4,342
Property, plant and equipment	3,264
Derivative financial instruments	1,708
Accrued and deferred assets including other assets	8,052
Goodwill and other intangible assets	0
Deferred tax assets	4,466
Total assets classified as held for sale	**712,995**
Liabilities directly associated with the assets classified as held for sale	
Due to banks and clients	699,337
Derivative financial instruments	7,902
Accrued and deferred liabilities including other liabilities	5,789
Provisions	594
Current and deferred tax liabilities	1,914
Total liabilities directly associated with the assets classified as held for sale	**715,536**
Net assets/(liabilities)	**-2,541**

Information on the provisions of the discontinued operations

Valartis Bank AG, Switzerland, announced that it had decided following in-depth analysis not to participate in the US Program as a category 2 bank. In accordance with the provisions of the US Program and in compliance with the respective deadline, Valartis Bank AG will decide at a later stage whether to register under Category 3 or to refrain from participation. Hence no provision was recognised as at 31 December 2013.

Following the Swiss Federal Supreme Court Decision of 30 October 2012 regarding retrocessions and trailer fees received from third parties, Valartis Bank conducted an in-depth risk analysis. The bank already dealt with the issue of such commissions in the past, and informed its clients about the possibility of such distribution remuneration. As at the balance sheet date, Valartis Bank had received no claims in respect of the restitution of retrocessions.

On 5 July 2013, the Swiss Bankers Association (SBA) published an update on the latest progress with regard to the tax agreement between Switzerland and the United Kingdom. Based on this, the possibility of Valartis having to participate proportionately in the guaranteed minimum payment by Switzerland to the UK cannot be ruled out. This is due to the fact that the payments made from Switzerland to the UK have been well below the expected level. Based on the allocation model to share this payment among Switzerland's banks , it must be assumed that Valartis will have to pay a maximum of CHF 0.1 million. This amount has been recognised in full in the provisions.

41. RELATED PARTIES AND COMPANIES

A related party is a person or entity that has the ability to control the Group or can exert a significant influence on operational and financial decisions. As part of its regular business activities, the Group also conducts transactions (such as securities transactions, payments, etc.) with related parties. Members of the Board of Directors and staff members are granted employee terms and conditions on security transactions (brokerage commission and custody charges). Loans to Members of the Board of Directors and to employees are granted with a 50 per cent discount on the credit margin. The following table provides an overview of transactions with related parties (persons and entities).

In CHF 1,000	31.12.2013	31.12.2012
Assets		
Key management and relatives	5,123	3,370
Associated companies	18,993	15,869
Other related entities	1,050	
Total	**25,166**	**19,239**
Liabilities		
Key management and relatives	977	1,272
Own pension fund	797	2,134
Associated companies	2,277	915
Total	**4,051**	**4,321**
Expenses		
Key management and relatives	-30	-30
Own pension fund		-1
Total	**-30**	**-31**
Income		
Key management and relatives	85	420
Own pension fund	126	
Associated companies	1,206	6,908
Other related entities	2,210	
Total	**3,627**	**7,328**

42. REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND GROUP EXECUTIVE MANAGEMENT

2013 In CHF	Basic remuneration from group entities in cash	of which remuneration in shares [1]	Employer's social security and pension fund contribution	Other benefits and services	Total remuneration
Board of Directors [2]					
Urs Maurer-Lambrou, Chairman [6]	327,929		23,307	4,112	355,348
Rolf Müller-Senn, Vice chairman [6]	253,207		18,218	4,148	275,573
Christoph N. Meister, Member	253,739		19,876	27,686	301,301
Jean-François Ducrest, Member [6]	121,290		9,092		130,382
Felix Fischer, Member [6]	26,844		2,012		28,856
Erwin W. Heri [6]	264,489		17,785	3,982	286,256
Total Board of Directors	**1,247,498**	**0**	**90,290**	**39,928**	**1,377,716**

The table shows the actual remuneration paid to the Member of the Board of Directors as recognised in personnel expense (the remuneration model for the Members of the Board of Directors is disclosed on page 70 in the section Corporate Governance).

2013 In CHF	Basic Remuneration in cash[3]	Variable remuneration in cash (current business year)	Variable remuneration in shares [4]	Employer's social security and pension fund contribution	Other benefits and services	Total remuneration for the current business year	Entitlement from ongoing share plans [5]
Group Executive Management [2]							
Gustav Stenbolt, CEO	511,300	175,000	144,760	155,600	4,957	991,617	475,000
Other Excecutive Management	1,377,500	165,000	83,430	323,800	11,084	1,960,814	634,000
Total Group Executive Management	**1,888,800**	**340,000**	**228,190**	**479,400**	**16,041**	**2,952,431**	**1,109,000**

For the footnotes we refer to page 161.

The table shows in column "entitlement form ongoing share plans" the part of the bonus awarded to members of Group Executive Management Committee which is paid in the form of shares, spread over one to three years. On page 72 in the section Corporate Governance the basic remuneration in cash, including the social security contributions and the whole bonus of the business year - regardless whether awarded as variable remuneration in cash or as entitlement from ongoing share plans – is disclosed.

Other benefits to related parties

In 2013 other benefits of TCHF 48 were granted to a related party to Andreas Insam, Member of the Group Executive Management. In previous year no other benefits or services have been provided to related parties of the Board of Diretors or the Group Executive Management.

Remuneration to former members of the Board of Directors

The former Chairman of the Board of Directors, Erwin W. Heri, received a fee of CHF 270,000 in the 2013 financial year for advisory services in respect of the strategic asset allocation. This payment is not included in the table of remuneration of Members of the Board of Directors since the service was provided after resigning from the Board of Directors. The contract will expire in 2014.

Director's and Officer's liability insurance

Neither the articles of incorporation nor applicable Swiss law contain provisions regarding the indemnification of members of the Board of Directors or Group Executive Management. According to general principles of Swiss employment law, an employer may, under certain circumstances, be required to indemnify an employee against losses and expenses incurred by that person in the performance of their duties under their employment contract, unless the losses and expenses arise as a result of that employee's gross negligence or intent. Under certain circumstances and subject to certain exceptions, Valartis Group follows the principle of indemnifying current and former members of its Board of Directors and/or its employees against certain losses and expenses in connection with their activities as a member of the Board of Directors or as an employee of the Group, of a company associated with the Group, or another company recognised by the Group. Valartis Group has directors' and officers' liability insurance for the members of its Board of Directors and Group Executive Management.

2012 In CHF	Basic remuneration from group entities in cash	of which remuneration in shares [1]	Employer's social security and pension fund contribution	Total remuneration
Board of Directors [2]				
Erwin W. Heri, Chariman	568,417	17,727	38,651	607,068
Jean-François Ducrest, Vice chairman	159,784	21,232	11,521	171,305
Christoph N. Meister, Member	203,891	72,249	14,456	218,347
Rolf Müller-Senn, Member	204,100	17,821	14,810	218,910
Urs Maurer-Lambrou, Member	126,791	20,068	9,327	136,118
Total Board of Directors	**1,262,983**	**149,097**	**88,765**	**1,351,748**

2012 In CHF	Basic remuneration in cash[3]	Variable remuneration in cash (current business year)	Variable remuneration in shares [4]	Employer's social security and pension fund contribution	Total remuneration for the curren business year	Entitlement from ongoing share plans [5]
Group Executive Management [2]						
Gustav Stenbolt, CEO	600,000	175,000	104,823	161,883	1,041,707	425,000
Other Excecutive Management	1,651,699	240,000	47,455	345,222	2,284,375	490,000
Total Group Executive Management	**2,251,699**	**415,000**	**152,278**	**507,105**	**3,326,082**	**915,000**

1) Remuneration in the form of shares is shown at the price for tax purposes.
2) No options were allocated to the Board of Directors and to the Group Executive Management.
3) From 2013 on the amount "Basic remunaration in cash" disclosed for the Group Execcutive Management is the net-salary in cash (previous year: gross-salary in cash before deduction of employee contribution social securities).
4) Definitive allocation in current business year of bonus plans form previous years. The shares are credited at the price for tax purposes.
5) The Group Executive Management also receive a non-binding prospective entitlement that is dependent on the future attainment of objectives of Valartis Group. This component of remuneration is recognised tat the point at which the definitive, binding allocation takes place in the following year (see explanation of the remuneration model).
6) Erwin W. Heri, Chairman until 14 May 2013 (resigned from Board of Directors at annual General Meeting 2013), Urs Maurer-Lambrou, Chairman since 14 May 2013 (previous member), Rolf Müller-Senn, Vice-chairman since 14 May 2013 (previous Member), Jean-François Ducrest, member since 14 May 2013 (previous Vice-chairman), Felix Fischer, Member since 14 May 2013.

43. LOANS, EQUITY HOLDINGS AND OPTION HOLDINGS AT YEAR-END

2013 In CHF	Loans and advances	Number of shares	Number of options	Related parties Advances
Members of the Board of Directors				
Urs Maurer-Lambrou, Chairman	146,000	1,329		
Rolf Müller-Senn, Vice chairman	127,500	4,417		
Christoph N. Meister, Member	127,500	4,821		
Jean-François Ducrest, Member		2,827		
Felix Fischer, Member [1)]		2,500		
Total Board of Directors	**401,000**	**15,894**	**0**	**0**
Group Executive Management				
Gustav Stenbolt, CEO [2)]	127,500	1,838,038		
Vincenzo Di Pierri, Deputy CEO [3)]		0		
George M. Isliker, CFO/CRO		2,329		
Monika Jung [4)]		2,405		
Andreas Insam	1,625,777	0		2,832,455
Total Group Executive Management	**1,753,277**	**1,842,772**	**0**	**2,832,455**

1) Since 14 May 2013.
1) The holdings include the shares in Valartis Group AG held indirectly via MCG Holdings S.A.
3) Since 11 June 2012.
4) Since 1 February 2013.
5) Until 11 May 2012.
6) Until 31 October 2012.

2012 In CHF	Loans and advances	Number of shares	Number of options	Related parties Advances
Members of the Board of Directors				
Erwin W. Heri, Chairman	127,500	42,607		
Jean-Francois Ducrest, Vice-Chairman		2,827		
Christoph N. Meister, Member	127,500	4,821		
Rolf Müller-Senn, Member	127,500	4,417		
Urs Maurer-Lambrou, Member		1,329		
Total Board of Directors	**382,500**	**56,001**	**0**	**0**
Group Executive Management				
Gustav Stenbolt, CEO [2)]	127,500	1,830,276		54
Vincenzo Di Pierri, Deputy CEO [3)]		0		
Stefan Holzer, Deputy CEO [5)]		52,009		
George M. Isliker, CFO/CRO		0		
Ernst Traun [6)]		4,943		
Andreas Insam	1,690,156	0		1,020,000
Total Group Executive Management	**1,817,656**	**1,887,228**	**0**	**1,020,054**

For the footnotes we refer to page 162.

44. BUSINESS SEGMENTS

Valartis Group is divided into two business segments – Private Clients and Institutional Clients – as well as the Corporate Center. Indirect costs for internal services rendered between the segments are in principle accounted for as expense by the recipient of the services and as a reduction in expense by the provider, in accordance with the originator principle.

Private Clients

The Private Clients business segment consists of the wealth management business of the two Valartis banks in Austria and the Principality of Liechtenstein. In addition to Central Europe, its core markets include in particular Eastern Europe, the Middle East, parts of North and South America, and certain countries in Asia. The Privat Client business of Valartis Bank in Switzerland was classified as discontinued operations.

Institutional Clients

The Institutional Clients business segment comprises the business areas Asset Management Funds & Investment Companies, Real Estate Funds & Investment Companies and Corporates & Markets. In addition to asset management, the following group companies also come under this segment: Valartis International Ltd., Valartis Asset Management S.A., MCT Luxembourg Management S.à.r.l. and Valartis Strategic Investments S.à.r.l. It also includes the fully consolidated investment company ENR Russia Invest S.A. and the associated company Darsi Group (using the equity method).

Corporate Center

The Corporate Center acts as an internal service centre for Valartis Group's operational business units. It provides services in the areas of risk management and risk controlling, legal and compliance, finance and controlling as well as corporate communications and marketing. All consolidation items as well as income and expenses with no direct link to the operative business segments are assigned to the Corporate Center as well. Treasury services and, after deduction of a risk-free return from the investment of client funds on behalf of the front organisations, the income from balance sheet and capital management are also attributed to the Corporate Center.

Segment reporting

2013 In CHF 1,000	Private Clients	Institutional Clients	Corporate Center	Total
Income from interest and dividends	7,456	5,708	4,317	17,481
Income from commission and service fees	34,277	13,240	-390	47,127
Income from trading	6,199	-9,980	142	-3,639
Other ordinary income	1,526	7,019	4,155	12,700
Service from/to other segments	-1,312	-849	2,161	0
Operating income [1]	**48,146**	**15,138**	**10,385**	**73,669**
Personnel expense	-23,694	-7,224	-3,192	-34,110
General expense	-11,067	-4,332	-2,489	-17,888
Administrative expense	**-34,761**	**-11,556**	**-5,681**	**-51,998**
Gross profit	**13,385**	**3,582**	**4,704**	**21,671**
Depreciation and amortisation	-1,933	-161		-2,094
Valuation adjustments, provisions and losses	-1,374	1,984	807	1,417
Segment result before amortisation	**10,078**	**5,405**	**5,511**	**20,994**
Amortisation of tangible and intangible assets (PPA) [2]	-8,450			-8,450
Segment result from continued operations after amortisation	**1,628**	**5,405**	**5,511**	**12,544**
Income taxes				689
Net profit from continued operations				13,233
Net loss after tax from discontinued operations				-12,799
Net Profit				**434**
Net loss attributable to shareholders of Valartis Group AG				-2,441
Net profit attributable to non-controlling interests				2,875
Total assets from continued operations	2,183,352	361,705	-231,421	2,313,636
Total liabilities from continued operations	2,013,654	117,049	-138,812	1,991,891
Total investments for continued operations	1,998	17		2,015
Assets under management from continued operations, in CHF million	5,305	729		6,034
Net new money from continued operations, in CHF million	508	-70		438
Employees from continued operations, full-time equivalents	172	33	12	217

1) A gain of CHF 5.3 million from associated companies is included in the operating profit of the segment institutional clients for 2013 (previous year gain of CHF 1.1 million).

2) The amortisation of the additionally activated tangible and intangible assets due to the purchase price allocation are disclosed separately.

2012 In CHF 1,000	Private Clients	Institutional Clients	Corporate Center	Total
Income from interest and dividends	10,709	4,867	2,707	18,283
Income from commission and service fees	29,339	12,675	-505	41,509
Income from trading	5,895	4,626	-4,229	6,292
Other ordinary income	1,503	1,965	1,156	4,624
Service from/to other segments	-1,064	-970	2,034	0
Operating income [1)]	**46,382**	**23,163**	**1,163**	**70,708**
Personnel expense	-22,548	-7,650	-2,816	-33,014
General expense	-10,012	-5,342	-2,015	-17,369
Administrative expense	**-32,560**	**-12,992**	**-4,831**	**-50,383**
Gross profit/loss	**13,822**	**10,171**	**-3,668**	**20,325**
Depreciation and amortisation	-1,792	-184		-1,976
Valuation adjustments, provisions and losses	-901	-4,724		-5,625
Segment result before amortisation	**11,129**	**5,263**	**-3,668**	**12,724**
Amortisation of tangible and intangible assets (PPA) [2)]	-8,311			-8,311
Segment result from continued operations after amortisation	**2,818**	**5,263**	**-3,668**	**4,413**
Income taxes				3,149
Net profit from continued operations				7,562
Net profit from discontinued operations				2,638
Net Profit				**10,200**
Net profit attributable to shareholders of Valartis Group AG				6,695
Net profit attributable to non-controlling interests				3,505
Total assets	3,131,933	648,644	-605,856	3,174,721
Total liabilities	2,901,532	377,307	-420,090	2,858,749
Total investments	1,277	7	241	1,525
Assets under management, in CHF million	6,714	1,084	0	7,798
Net new money, in CHF million	1,039	-110	0	929
Employees, full-time equivalents	202	54	43	299

For the footnote we refer to page 165.

Information on regions

In CHF 1,000	31.12.2013			31.12.2012		
	Switzerland	Other countries	Total	Switzerland	Other countries	Total
Operating income	2,509	71,160	73,669	14,859	55,849	70,708
Total assets	416,729	1,896,907	2,313,636	663,544	2,511,177	3,174,721
Total investments continued operations	17	1,998	2,015	248	1,277	1,525

Reporting is based on operating locations.

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below shows the carrying amounts and fair values of financial assets and liabilities.

In CHF 1,000	31.12.2013			31.12.2012		
	Book value	Fair value	Deviation	Book value	Fair value	Deviation
Assets						
Cash	568,607	568,607		632,708	632,708	
Cash deposits for reverse repurchase agreements				45,760	45,760	
Due from banks	1,134,578	1,134,578		1,056,604	1,056,962	358
Due from clients	201,351	201,719	368	540,094	540,060	-34
Financial assets held to maturity	57,174	58,251	1,077	328,789	347,010	18,221
Accrued and deferred assets	9,355	9,355		29,211	29,211	
Other assets	27,737	27,737		23,722	23,722	
Financial assets at amortised costs	**1,998,802**	**2,000,247**	**1,445**	**2,656,888**	**2,675,433**	**18,545**
Trading portfolio assets	106,862	106,862		210,581	210,581	
Financial assets available for sale	41,853	41,853		108,794	108,794	
Derivative financial instruments	477	477		1,243	1,243	
Other financial assets at fair value	36,742	36,742		43,644	43,644	
Financial assets at fair value	**185,934**	**185,934**	**0**	**364,262**	**364,262**	**0**
Liabilities						
Due to banks	29,476	29,476		263,871	269,100	5,229
Due to clients	1,913,274	1,913,274		2,542,002	2,541,983	-19
Accrued and deferred liabilities	13,981	13,981		17,422	17,422	
Other liabilities	3,548	3,548		5,311	5,311	
Issued debt instruments	12,268	12,458	190			
Financial liabilities at amortised costs	**1,972,547**	**1,972,737**	**190**	**2,828,606**	**2,833,816**	**5,210**
Derivative financial instruments	904	904		6,160	6,160	
Financial liabilities at fair value	**904**	**904**	**0**	**6,160**	**6,160**	**0**

The table below shows the financial instruments and liabilities classified in 3 levels. For the definition of the levels used we refer to the accounting principles.

Valuation methods of financial instruments

2013 In CHF 1,000	Quoted market prices (Level 1)	Valuation method based on market data (Level 2)	Valuation method not based on market data (Level 3)	31.12.2013
Assets				
Cash	568,607			568,607
Due from banks		1,134,578		1,134,578
Due from clients		201,719		201,719
Financial assets held to maturity	57,626	625		58,251
Accrued and deferred assets			9,355	9,355
Other assets			27,737	27,737
Financial assets at amortised costs	**626,233**	**1,336,922**	**37,092**	**2,000,247**
Trading portfolio assets	76,464	22,272	8,126	106,862
Financial assets available for sale	23,910		17,943	41,853
Other financial assets at fair value	102		36,640	36,742
Derivative financial instruments		477		477
Financial assets at fair value	**100,476**	**22,749**	**62,709**	**185,934**
Total financial assets	**726,709**	**1,359,671**	**99,801**	**2,186,181**
Liabilities				
Due to banks		29,476		29,476
Due to clients		1,913,274		1,913,274
Accrued and deferred liabilities			13,981	13,981
Other liabilities			3,548	3,548
Issued debt instruments			12,458	12,458
Financial liabilities at amortised costs	**0**	**1,942,750**	**29,987**	**1,972,737**
Derivative financial instruments		904		904
Total financial liabilities at fair value	**0**	**904**	**0**	**904**
Total financial liabilities	**0**	**1,943,654**	**29,987**	**1,973,641**

In the event of changes in the availability of market prices and/or market liquidity, reclassifications are made at the end of the period under review.

In 2013, positions with a fair value of TCHF 2'070 were reclassified from Level 1 (listed market prices) to Level 2 (valuation methods based on market data) and positions with a fair value of TCHF 40 were reclassified from Level 2 to Level 3 (valuation methods not based on market data).

Material positions at fair value classified as Level 3

Two of the contingent purchase price considerations from the sale of Eastern Property Holdings Ltd. (EPH) in the amount of CHF 36.6 million (2012: CHF 43.3 million) are recognised as other financial assets at fair value under Level 3 (see also the information in Note 19). The fair value of these contingent purchase price considerations corresponds to the expected payout at the end of the measurement period, discounted as at the balance sheet date. The payout amount is linked to the successful completion and the sale of the current development projects of EPH. The expected payout amount is essentially based on the semi-annual valuation reports on the development projects prepared by independent external experts. Valartis Group has a 50 per cent participation in any upside potential. The downside risk is borne in full by Valartis Group, but limited to a maximum of CHF 29.0 million (2012: CHF 34.2 million). The appropriateness of the fair value measurement is reviewed regularly. Changes in fair value are recognised in the income statement (see Note 18).

Sensitivity of the fair values of Level 3-instruments

A change of one percentage point in the interest rate assumptions for determining the fair value of the contingent purchase price considerations, coupled with a shortening of the payment terms by one year, would result in only a minor change in the fair value. A reduction in the valuations of the current development projects of Eastern Property Holdings Ltd would entail a corresponding adjustment in the expected payout amount (maximum downside risk CHF 29.0 million). Valartis Group has a 50 per cent participation in any increase in the valuations.

From the current perspective, a realistic change in the basic assumptions of the estimated values of the other Level 3-positions also has no significant impact on the Group's income statement, statement of comprehensive income or shareholders' equity.

2012 In CHF 1,000	Quoted market prices (Level 1)	Valuation method based on market data (Level 2)	Valuation method not based on market data (Level 3)	31.12.2012
Assets				
Trading portfolio assets	184,731	19,440	6,410	210,581
Financial assets available for sale	89,192	0	19,602	108,794
Other financial assets at fair value	377	0	43,267	43,644
Derivative financial instruments	0	1,238	5	1,243
Financial assets at fair value	**274,300**	**20,678**	**69,284**	**364,262**
Liabilities				
Derivative financial instruments		6,160	0	6,160
Total financial liabilities at fair value	**0**	**6,160**	**0**	**6,160**

The Group has availed the exemption under IFRS 13 from providing the fair value disclosures, whereby the disclosure requirments of IFRS 13 need not be applied in comparative information retrospectively. However, the fair value hierarchy for financial instruments measured at fair value is provided for 2012 since the same was provided in the Group's 2012 financial statements as previously required by IFRS 7.

The table below shows the changes in the positions whose fair value is not measured on the basis of market-prices or -data (Level-3):

2013 In CHF 1,000	01.01.2013	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2013
Trading portfolio assets	6,410	-137			1,859	-6	8,126
Derivative financial instruments	5	-5				0	0
Financial assets available for sale	19,602						
Less discontinued operations	-4,115						
Financial assets available for sale continued operations [3]	15,487		2,416	40			17,943
Other financial assets at fair value	43,267	-5,425				-1,202	36,640

2012 In CHF 1,000	01.01.2012	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2012
Trading portfolio assets	10,761	-4,272			184	-263	6,410
Derivative financial instruments	1,090				5	-1,090	5
Financial assets available for sale	22,522		-721			-2,199	19,602
Other financial assets at fair value	0				43,267		43,267

1) The unrealised trading loss recorded in the income statement for trading portfolio assets held at year end amounts to TCHF -137 (previous year TCHF -1'138), the unrealised loss of other financial assets at fair value to TCHF -5'425 (previous year: none).
2) The unrealised gain on financial assets available for sale held at year-end recorded in shareholders equity amounts to TCHF 2'416 (previous year unrealised loss TCHF -366).
3) Transfer from/to level 2 comprises a financial instrument which has been reclassified from level 3 to level 2 at the beginning of the period (amounts TCHF 16,307). At 31 December 2013 the same financial instrument (amount TCHF 17,721) was reclassified as level 3 because no regular quoted market values were available anymore.

The table below shows the disclosure requirements in accordance with IFRS 7.12B-D for those fixed income positions that have been reclassified from trading to held to maturity in 2010:

In CHF 1,000	31.12.2013 [1]	12/31/2012	Time of reclassification
Reclassified position – HTM (book value)	36,624	136,250	190,704
Reclassified position – HTM (fair value)	35,941	143,858	190,704
Expected undiscounted cash flow at the time of the reclassification			236,598
Effective interest rate at the time of the reclassification			4.68%
Fair value valuation losses/gains in reporting year as if the reclassification had not taken place	-338	21,312	
Interest income from the reclassified positions	1,985	7,322	

1) The fixed income position, reclassified in 2010, of the discontinued operations are not disclosed anymore for the year 2013. Per 1. January 2013 the book values of these fixed income positions were CHF 88.4 million and the fair values CHF 95.9 million. The position was further reduced as some of the financial instruments have reached their maturity date in 2013.

46. 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	31.12.2013 Share of capital	31.12.2013 Share of votes	31.12.2012 Share of capital	31.12.2012 Share of capital
Companies in the Segment Private Clients [1]								
Valartis Bank AG [1]	Zurich, CH	Bank	CHF	20,000,000	100%	100%	100%	100%
Valartis Bank (Austria) AG	Vienna, A	Bank	EUR	6,570,000	100%	100%	100%	100%
Valartis Bank (Liechtenstein) AG [2]	Bendern, FL	Bank	CHF	20,000,000	69.30%	88.97%	71.09%	88.97%
Valartis Wealth Management S.A. [1]	Geneva CH	Asset Management	CHF	2,000,000	100%	100%	100%	100%
Companies in the Segment Institutional Clients								
thereof assets and funds management and corporate finance								
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	20,000,000	100%	100%	100%	100%
Valartis Asset Management S.A.	Geneva CH	Investment Advisor	CHF	1,896,210	100%	100%	100%	100%
Valartis Europe S.A. [3]	Vienna, A	Investment Advisor	EUR	-	-	-	-	-
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,500	100%	100%	100%	100%
Valartis Strategic Investments S.à.r.l.	Luxembourg, L	Holding Company	EUR	100,000	100%	100%	100%	100%
thereof Investment companies fully consolidated								
ENR Russia Invest S.A.	Geneva CH	Financial Company	CHF	32,790,585	61.35%	61.35%	60.95%	60.95%
thereof Investment companies equity accounted								
Eastern Property Holdings Ltd. [4]	Tortola, BVI	Real estate Company	USD	-	-	-	-	-
Darsi International Ltd.	Tortola, BVI	Real estate Company	EUR	7,476,190	32.44%	32.44%	32.44%	32.44%
Panariello Enterprises Ltd.	Nicosia, Cyprus	Investment-gesellschaft	EUR	25'650	49%	49%	100%	100%
Companies in the Corporate Center								
Valartis AG	Baar, CH	Holding Company	CHF	100,000	100%	100%	100%	100%

1) At 31 December 2013 classified as discontinued operations.
2) Of which CHF 6,4 Mio. participation capital.
3) Sold at 4th July 2012.
4) Sold at 19 December 2012.

Restrictions on the use of assets

The use of assets for Valartis Bank AG, Valartis Bank (Austria) AG and Valartis Bank (Liechtenstein) AG is restricted by the applicable regulatory provisions on equity capital in each case. Furthermore, the statutory requirements under company law in the respective country of domicile are to be complied with for all Group companies.

47. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

The table below shows information on each subsidiary of the Group with material non-controlling interests. This information is based on amounts before intercompany eliminations.

In CHF 1,000	Valartis Bank (Liechtenstein) Group		ENR Russia Invest Group	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Share of non-controlling interests in per cent				
Participation	30.70%	28.91%	38.65%	39.05%
Voting rights	11.03%	11.03%	38.65%	39.05%
Total assets	1,387,237	1,130,284	119,667	122,034
Total liabilities	1,314,447	1,067,465	4,982	3,594
Net assets	72,790	62,819	114,685	118,440
Carrying amount of non-controlling interests	**21,229**	**16,932**	**44,993**	**46,919**
Operating income	37,030	30,988	-2,558	21,156
Profit/loss	14,083	9,339	-3,748	20,159
Other comprehensive income	17	222	-7	-
Total comprehensive income	**14,100**	**9,561**	**-3,755**	**20,159**
Profit/loss allocated to non-controlling interests	4,324	2,589	-1,449	915
Other comprehensive income allocated to non-controlling interests	5	64	-3	
Cash flow from operating activities	322,378	170,254	-6,364	14,461
Cash flow investing from investment activities	10,700	-2,555	-2	
Cash flow from financing activity	9,045	-1,307	-370	-
Foreign exchange translation effects			152	64
Net cash flow	**342,123**	**166,392**	**-6,584**	**14,525**
Dividends paid to non-controlling interests	1,140	595		

Further shares in Valartis Bank (Liechtenstein) AG were sold to employees in 2013. The Group's share in the capital thus decreased from 71.09 per cent to 69.3 per cent. The shareholding in ENR Russia Invest S.A. was increased from 60.95 per cent to 61.35 per cent. The table below discloses the impact resulting from the change in the share of capital held by Valartis Group in these two companies with material non-controlling interests.

Changes in non-controlling interests

In CHF 1,000	Valartis Bank (Liechtenstein) Group 2013	ENR Group 2013
Non-controlling interests at 1 January 2013	**16,932**	**46,919**
Gains/losses from financial assets available for sale	8	0
Foreign exchange translation differences	-3	-3
Other comprehensive Income	**5**	**-3**
Net profit/loss	4,324	-1,449
Total comprehensive income	**4,329**	**-1,452**
Dividend payments	-1,140	0
Change in treasury shares	273	0
Other effects	835	-474
Owner-related changes	**-32**	**-474**
Total non-controlling interests at 31 December 2013	**21,229**	**44,993**

48. STRUCTURED ENTITIES

As an active asset manager, Valartis Group manages a wide range of different collective investment instruments. These collective investment instruments of Valartis Group are structured entities as defined under IFRS 12. Valartis Group acts here as an agent in the interests of investors, and these investment instruments are therefore not consolidated. Investments held by Valartis Group in its own investment funds are recognised as financial instruments. With one exception, there are no contractual or constructive obligations to provide financial or other support to the investment funds. When the investment fund MCT Berlin Residential was established, Valartis Group took on unlimited liability for the obligations of the fund. As at 31 December 2013, the liability risk is insignificant. The properties held by the fund were sold at a profit towards the end of 2013, and the fund will be liquidated following the transfer of the properties.

Valartis Group manages the assets of the collective investment instruments placed in the respective funds by the investors, doing so in accordance with the pertinent investment regulations. In addition, Valartis also performs various administrative tasks for the collective investment instruments. For these services, Valartis Group receives fees at customary market rates. The gross income from services for the collective investment instruments in the 2013 financial year totalled CHF 25.5 million. Units from self-managed funds held by Valartis Group are recognised as financial instruments.

The table below shows the carrying amounts of Valartis Group's holdings in these collective investment instruments. With the aforementioned exception, the carrying amount corresponds to the maximum downside risk.

In CHF 1,000	Trading portfolio assets [1]
Carrying amount 1 January 2013	8,296
Purchase	5,961
Sales	0
Gain recognised in the income statement	842
Total as at 31 December 2013	**15,099**

1) The income recognised in income statement is disclosed as income from trading.

49. ASSETS UNDER MANAGEMENT

In CHF 1,000	31.12.2013 [4]	31.12.2012
Assets in self-managed funds	745,611	770,836
Assets with management mandates	336,420	600,508
Other client assets	4,258,585	5,801,313
Total assets under management [1]	**5,340,616**	**7,172,657**
of which double counts	201,698	316,553
Net new money inflow [2]	437,504	929,302
Custody assets	117,922	54,870
Assets in leveraged funds [3]	575,458	570,481
Total assets under management (incl. leveraged funds and custody assets)	**6,033,996**	**7,798,008**

1) According to FINMA's accounting rules (Table Q).
2) Net new assets inflow/outflow includes all deposits and withdrawls 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.
3) Leveraged funds that exceed the internal gross profitability criteria.
4) The assets under management of the discontinued operations are not included in disclosures for 31 December 2013.

50. CONSOLIDATED OFF BALANCE SHEET ITEMS

In CHF 1,000	31.12.2013	31.12.2012
Credit guarantees	8,861	7,130
Warranties	0	0
Other contingent liabilities	8,395	26,515
Total contingent liabilities	**17,256**	**33,645**
Irrevocable commitments	0	946
Loan commitments	0	0
Call commitments and additional funding obligations	0	0
Derivative financial instruments (assets)	477	1,243
Derivative financial instruments (liabilities)	904	6,160
Contract volume	222,588	785,402
Fiduciary transactions	293,075	328,759

This table is based on the FINMA circular 2008/2. The contingent liabilities do not qualify as contingent liabilities in accordance with IAS 37.

51. EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred since the balance sheet date that have a material impact on the consolidated financial statements.

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Building a better working world

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To the General Meeting of
Valartis Group AG, Baar

Zurich, 16 April 2014

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 income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, cash flow statement and notes (pages 82 to 176), for the year ended 31 December 2013.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation 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 2013 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 article 11 AOA) and that there are no circumstances incompatible with our independence.

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

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

Ernst & Young Ltd

Patrick Schwaller
Licensed audit expert
(Auditor in charge)

Stefan Pfyffer
Licensed audit expert

VALARTIS GROUP AG FINANCIAL STATEMENTS

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INCOME STATEMENT OF VALARTIS GROUP AG

Income

In CHF	Note	1.1.–31.12.2013	1.1.–31.12.2012
Dividend income from group companies		4,514,513	34,525,094
Other financial income		475,461	27,595,204
Extraordinary income		560,425	60,989
Total income		**5,550,399**	**62,181,287**

Expenses

Office and business expense		-2,006,324	-1,516,881
Personnel expense		-1,805,956	-1,951,531
Financial expense		-9,525,820	-7,194,626
Commission expense		-388,201	-502,438
Valuation adjustment	3	0	-13,777,306
Other ordinary expense		-3,946,418	-3,297,671
Extraordinary expense		-19,734	
Taxes		-3,407	-3,528
Total expense		**-17,695,860**	**-28,243,981**
Net loss/profit		**-12,145,461**	**33,937,306**

STATEMENT OF FINANCIAL POSITION OF VALARTIS GROUP AG

Assets

In CHF	Note	31.12.2013	31.12.2012
Current assets			
Due from banks		684	1,861,858
Due from group companies		18,693,123	17,121,269
Valuation adjustment due from group companies	3	-13,777,306	-13,777,306
Securities in the trading portfolio		8,730,614	8,470,632
Financial assets		15,313,010	15,259,560
Accrued and deferred assets		17,290	21,375
Other assets		1,705	543
Total current assets		**28,979,120**	**28,957,931**
Fixed assets			
Participations	4	271,539,557	271,539,557
Total fixed assets		**271,539,557**	**271,539,557**
Total assets		**300,518,677**	**300,497,488**

Liabilities and Shareholders' Equity

Liabilities			
Due to banks		24,776,038	49,382,211
Due to group companies		213,144,886	171,640,425
Accrued and deferred liabilities		1,265,769	1,237,022
Other liabilities		918	878
Provisions		800,000	560,425
Total liabilities		**239,987,611**	**222,820,961**
Shareholders' equity			
Share capital	5	5,000,000	5,000,000
General statutory reserve		1,000,000	1,000,000
Reserve for treasury shares	6	8,850,486	9,625,531
Free reserve		23,004,457	22,229,412
Retained earnings			
Profit brought forward from previous year		34,821,584	5,884,278
Net loss/profit		-12,145,461	33,937,306
Total shareholders' equity		**60,531,066**	**77,676,527**
Total liabilities and shareholders' equity		**300,518,677**	**300,497,488**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GUARANTEES IN FAVOUR OF THIRD PARTIES

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

2. PLEDGED ASSETS AND ASSETS UNDER RESERVATION OF OWNERSHIP

In CHF	31.12.2013	31.12.2012
Assets pledged and assigned as collateral	15,852,354	1,812,500

3. VALUATION ADJUSTMENT

The valuation adjustment was recognised in connection with the sale of the participation in Eastern Property Holdings Ltd (EPH) in December 2012. The payment of the sales price is split into a number of instalments and is dependent on various criteria being met. In accordance with the principle of prudence, for the statutory individual financial statement a valuation adjustment was made for a part of the sales price payment not yet paid.

In 2013, there were no valuation adjustments.

4. MAJOR EQUITY PARTICIPATIONS

For information on the major participations, see the Valartis Group Consolidated Financial Statements (Note 46).

5. SHARE CAPITAL

	31.12.2013	31.12.2012
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

6. TREASURY SHARES

	31.12.2013	31.12.2012
Number of shares in Valartis Group AG's trading portfolio	96,234	96,234
Number of shares in Valartis International Ltd.'s trading portfolio	100,000	100,000
Number of shares in the Valartis Group Foundation's trading portfolio	54,896	94,345
Number of shares in Valartis Bank AG's trading portfolio	154,910	143,988
Reserve for treasury shares, in CHF [1)]	8,850,486	9,625,531

1) In 2013, a total of 41,618 shares were purchased at CHF 19.25 and 70,145 shares were sold at CHF 21.90.

7. SHAREHOLDER STRUCTURE

In per cent	31.12.2013	31.12.2012
MCG Holding S.A., Baar ZG	50.2	49.4
INTEGRAL Stiftung für die berufliche Vorsorge, Thusis GR	5.1	5.1
Kreissparkasse Biberach, Biberach, Germany	3.0	3.0
Gustav Stenbolt und Philipp LeibundGut	0.6	0.0

The share capital consists of bearer shares. The owners of the shares are only known to Valartis Group if they either individually or collectively exceed the threshold and report according to the Stock Exchange Act.

The beneficial owners of MCG Holding S.A. are Gustav Stenbolt, Geneva, Tidesea Ltd, Baar (100 per cent controlled by Gustav Stenbolt, Geneva), Philipp LeibundGut, Zurich, Pierre Michel Houmard, Geneva, and Tudor Private Portfolio LLC, Greenwich, USA. The following are deemed to be holders of qualified participations: a) Gustav Stenbolt, who holds 73.6 per cent of the voting rights (65.4 per cent of the share capital) of MCG Holding S.A. (partly held through Tidesea Ltd, Baar), b) Philipp LeibundGut, who holds 14.3 per cent of the voting rights (18.7 per cent of the share capital) of MCG Holding SA, and c) Tudor Private Portfolio LLC, Greenwich, USA, which holds 11.8 per cent of the voting rights (15.4 per cent of the share capital) of MCG Holding S.A. Tudor Private Portfolio LLC is wholly controlled by Tudor Group Holdings LLC, Greenwich, USA, which is in turn controlled by Paul Tudor Jones of Greenwich, USA. Pierre Michel Houmard holds 0.3 per cent of the voting rights (0.5 per cent of the share capital) of MCG Holding S.A.

The shares held directly by Gustav Stenbolt and Philipp LeibundGut as at 31 December 2013 stem from the bonus schemes run by Valartis for Group Executive Management and employees.

8. REMUNERATION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE GROUP EXECUTIVE MANAGEMENT

For information on the remuneration of the members of the Board of Directors, and the Group Executive Management, see the published Valartis Group Consolidated Financial Statements (Note 42).

9. OPTION RIGHTS

For information on option rights, see the published Valartis Group Consolidated Financial Statements.

10. RISK ASSESSMENT

The Board of Directors has regularly carried out risk assessments and initiated any resulting measures to ensure that the risk of material misstatement in the consolidated financial statements can be considered small.

For further information on risk assessment, see the notes on risk management in the published Valartis Group Consolidated Financial Statements.

11. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of Valartis Group currently expects, based on the decision made and the corresponding action taken in 2013 to divest Valartis Bank AG, Switzerland, to achieve a favorable solution on behalf of the shareholders, clients, and personnel for the wholly owned subsidiary during the course of 2014. For further information see the published Valartis Group Consolidated Financial Statements (Note 40).

PROPOSAL OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS

The Board of Directors will submit the following proposal to the Ordinary General Meeting of Shareholders on 13 May 2014 in respect of the distribution of profit:

In CHF	2013	2012
Profit brought forward from previous year	34,821,584	5,884,278
Net loss/profit	-12,145,461	33,937,306
Retained earnings	22,676,123	39,821,584
Dividend on capital entitled to dividend payments	0	-5,000,000
Profit to be carried forward	**22,676,123**	**34,821,584**
Dividend per bearer share entitled to dividend payments	0.00	1.00

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To the General Meeting of
Valartis Group AG, Baar

Zurich, 16 April 2014

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 income statement, statement of financial position and notes (pages 183 to 187), for the year ended 31 December 2013.

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 2013 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 article 11 AOA) and that there are no circumstances incompatible with our independence.

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

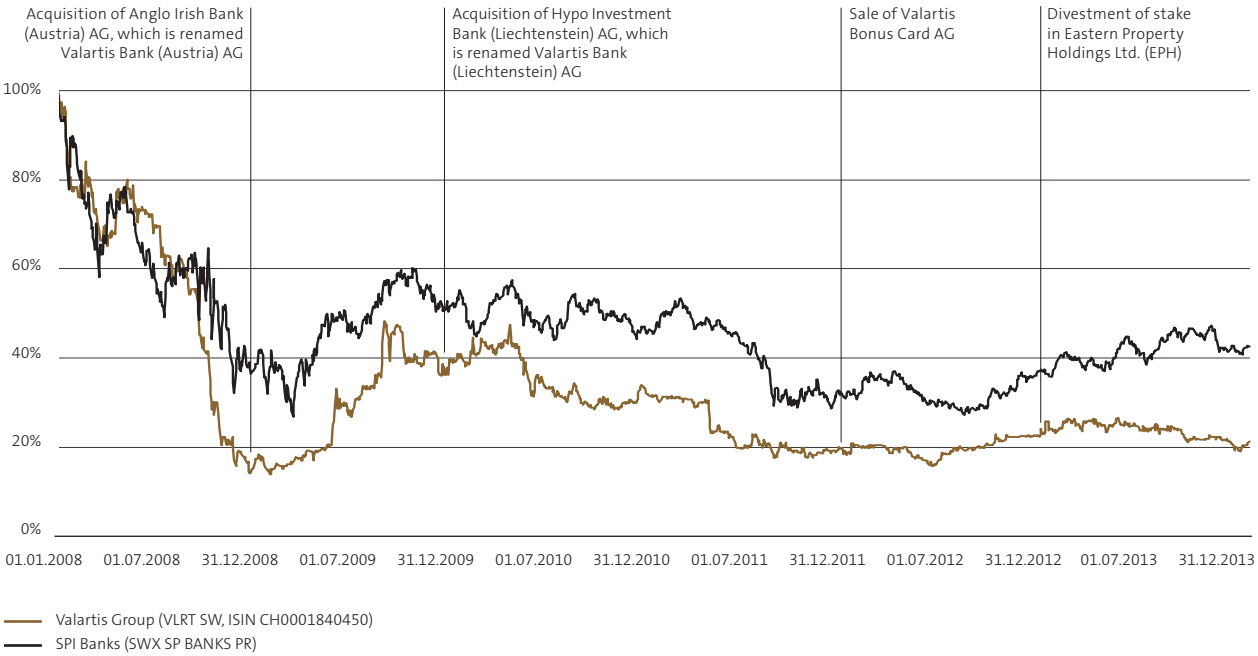
We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Patrick Schwaller
Licensed audit expert
Auditor in charge)

Stefan Pfyffer
Licensed audit expert

VALARTIS GROUP AG BEARER SHARE



In CHF	31.12.2009	31.12.2010	31.12.2011	31.12.2012	31.12.2013
Share capital Valartis Group AG	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of VLRT bearer shares issued	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Number of VLRT bearer shares outstanding, qualifying for dividends	4,651,830	4,850,106	4,860,366	4,903,766	4,903,766
Nominal value of VLRT bearer share	1.00	1.00	1.00	1.00	1.00
Closing price of VLRT bearer share	32.50	26.00	17.25	20.00	17.70
Annual high	41.50	39.35	26.30	21.30	22.10
Annual low	11.20	23.60	13.45	13.00	15.80
Market capitalisation	162,500,000	130,000,000	86,250,000	100,000,000	88,500,000
Dividend per share	0.50	0.50	0.00	1.00	0.00
Dividend yield	1.5%	1.9%	n/a	5.0%	0.0%
Price-to-book ratio	0.46	0.39	0.28	0.31	0.28

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Valartis market information

Bearer shares listed on SIX Swiss Exchange
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Reuters: VLRT.S
Bloomberg: VLRT SW
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Valartis market information

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