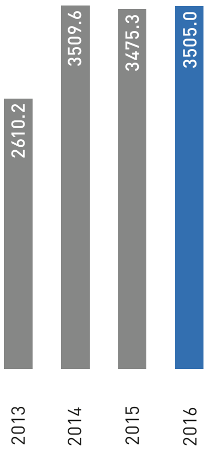
Real Estate division

Yield-producing properties
CHF million



Rental income in the 2016 financial year decreased marginally by 0.9% to CHF 173.7 million compared to the comparable period the previous year. Earnings declined despite the reduced vacancy rate owing to the divestment of yield-producing properties in the first half of 2016 and the connected loss of rental income.

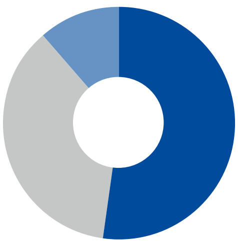
A breakdown of rental income shows only minor changes compared to the previous year. In the period under review, the share of residential properties in total rental income amounted to CHF 32.7 million and that of commercial properties to CHF 140.6 (2015: CHF 31.5 million / CHF 143.4 million).

In terms of usage category, the rounded share of Office/Services amounted to 56%, Residential to 22%, Trade/Warehousing to 7%, Parking to 7%, Retail to 5% and Remaining usage to 3%.

On the cut-off date, the average duration of fixed-term rental agreements for commercial real estate was 7.1 years and the share of contracts to be renewed represented a low 4%.

Of the total earnings from letting commercial real estate the ten largest tenants contributed a share of 59.4% and the five largest tenants a share of 45% (2015: 59.9% / 45.6%).

Thanks to numerous positive results concerning initial and follow-up letting of both residential and commercial space, the cumulated vacancy rate decreased by 2.4 percentage points to 5.1% (2015: 7.5%).



Regional distribution of commercial and residential properties
in percent of market value as at 31 December 2016

City of Zurich	52.3%
Canton of Zurich	36.5%
Other regions	11.2%

Letting success concerning two residential properties in Zurich-West affecting income in the period under review and several commercial buildings in metropolitan Zurich and western Switzerland contributed to the significant reduction. Moreover, rental agreements were concluded in 2016 for three large commercial properties which will result in a further decline of the vacancy rate in 2017. These three properties refer to the commercial building on Boulevard Lilienthal in Opfikon with 13,414 square metres of useful space, the commercial building at Bellerivestrasse 30 in Zurich Riesbach with 3,078 square metres of useful space, and the commercial building on Herostrasse Zurich Altstetten with 11,256 square metres of useful space.

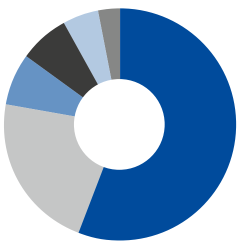
Income from yield-producing properties
CHF million

Excluding concluded rental agreements which will affect income only in 2017, the following properties presented the highest vacancy rates on the cut-off date: the commercial building In der Luberzen in Urdorf ZH, the street level retail areas in the Richti complex in Wallisellen ZH, the commercial building Route François-Peyrot in Le Grand-Saconnex VD, and the commercial building Baarermatte in Baar ZG. The cumulated loss of income resulting from these properties amounts to CHF 2.1 million per annum in total.

Real estate expenses in the year under review were reported at CHF 24.4 million, corresponding to an expenditure rate of 14.1% in terms of the entire rental income (2015: CHF 31.8 million / 18.2%). The significantly lower level of real estate expenses compared to the 2016 financial year is due to the conclusion the previous year of two large refurbishment projects.

The decline in loss of income owing to vacancies and the lower real estate expenses resulted in a very gratifying net yield for yield-producing properties of 4.4% (2015: 4.2%).

In the year under review, the share of the Allreal properties managed by Hammer Retex in terms of market value grew by 48.1% (2015: 40%). Subsequently, accentuated by the expiration of a large individual contract at the end of 2015, revenue derived from real estate management and marketing declined by 23.0% to CHF 4.7 million (2015: CHF 6.1 million). Owing to the management of Allreal's yield-producing properties by Hammer Retex, third-party expenses concerning real estate management decreased by CHF 1.7 million.

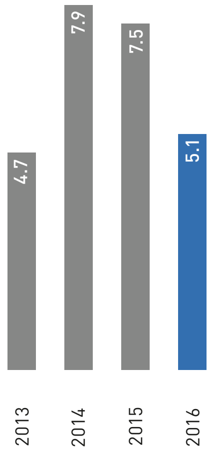


Breakdown of commercial and residential properties by usage
in percent of target rental income 2016

Office and services	56%	Sales	5%
Residential	22%	Other	3%
Trade and warehousing	7%		
Parking	7%		

Portfolio of investment real estate with two additions and four divestments
On 1 June 2016, an own project located at Schiffbaustrasse 12 in Zürich-West was reclassified and transferred to the portfolio of yield-producing properties. The seven-storey residential and commercial building with rentable space of 3,397 square metres and annual rental income of CHF 1.3 million comprises 23 rental apartments as well as office and commercial space. The investment volume of the practically fully let building amounted to approximately CHF 23 million.

Cumulative vacancy rate yield-producing properties
in percent of target rental income

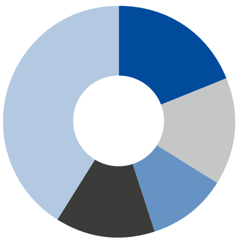


In the period under review, Allreal divested four commercial buildings at a profit of CHF 5.6 million, or 6% above the amount shown in the balance sheet.

Three properties with total usable space of 14,976 square metres were sold to an institutional investor. The properties divested with effect from 1 March 2016 refer to one commercial building each in Dietlikon ZH, Zurich Aussersihl and Zurich Altstetten. A commercial building held in leasehold in Zurich Aussersihl with 2,600 square metres useful space was sold with effect from 1 April 2016.

The portfolio of yield-producing properties as at 31 December 2016 included 20 residential properties with a total of 1,349 rental apartments and 39 commercial properties with a total of 554,490 square metres of useful space.

The Fangleten-/Solistrasse development property in Bülach ZH was transferred to the portfolio of investment real estate as at 30 June 2016. The residential complex comprises four apartment buildings with a total of 76 rental apartments. It is the first of six projects to be implemented on the Bülachguss site.



Breakdown of tenants of commercial real estate
in percent of rental income from commercial real estate 2016

Largest tenant	18.1%
Second- and third-largest tenants	14.7%
Fourth- and fifth-largest tenants	12.2%
Sixth- to tenth-largest tenants	14.4%
Others	40.6%

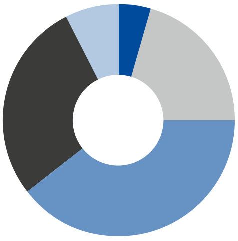
As the additions and divestments concerning investment real estate under construction in the period under review remained in balance, the inventory as at the cut-off date remained unchanged at two properties. They correspond to an investment volume of approximately CHF 113 million, a total market value of CHF 69.5 million and an annual target rental income following completion of CHF 6.7 million.

In a valuation of 61 investment properties by external assessors as at the cut-off date, the yield compression and a clearly lower vacancy rate lead to a massive positive value correction before tax of CHF 85.0 million (2015: CHF 15.8 million).

The 20 residential properties were again positively revalued by CHF 59.2 million (2015: CHF 32.0 million), the commercial properties were revalued by CHF 19.1 million (2015: CHF 30.0 million) and the two investment properties under construction by CHF 6.7 million (2015: CHF 13.8 million).

The inventory changes made in the 2016 financial year and the positive value correction resulted in a market value of the entire portfolio of CHF 3.57 billion (2015: CHF 3.53 billion). Of this amount CHF 3505.0 million or 98.1% applied to the portfolio of 59 yield-producing properties (2015: CHF 3,475.3 million / 98.6%) and CHF 69.5 million or 1.9% to the two investment properties under construction (2015: CHF 49.9 million / 1.4%).

The share of residential properties in the portfolio of yield-producing properties amounted to CHF 805.8 million or 23.0% (2015: CHF 719.6 million / 20.7%), and that of commercial properties to CHF 2699.2 million or 77.0% (2015: CHF 2755.7 million / 79.3%).



Residential real estate
Apartment mix by size of apartment by 31. December 2016

≤ 1½ rooms	4.7%
≤ 2½ rooms	20.3%
≤ 3½ rooms	39.5%
≤ 4½ rooms	28.1%
≥ 5 rooms	7.4%

The geographic distribution of the yield-producing properties remained practically unchanged compared to the previous year. The following situation emerged on the cut-off date in terms of market value: City of Zurich 52.3% (2015: 52.1%), remaining Canton of Zurich 36.5% (2015: 36.6%), both Cantons of Basel 6.4% (2015: 6.3%), Cantons of Geneva and Vaud 3.8% (2015: 3.8%) and Canton of Zug 1.0% (2015: 1.2%).

In the period under review, the Real Estate division reported net profit excluding revaluation gains of CHF 93.5 million, representing a contribution toward Group net profit excluding revaluation gains of 81.4%.