ANNUAL REPORT
2016

valartisgroup

KEY FIGURES AT A GLANCE

Key Figures – as continued and discontinued operations

in CHF million	31.12.2016	31.12.2015
Total operating income	**16.7**	**-17.2**
Income from interest and dividend	-1.2	-2.2
Income from commission and service fee	5.1	3.5
Income from trading book	4.7	-3.5
Other ordinary income	8.1	-15.0
Administrative expense	-19.8	-20.9
Personnel expense	-9.0	-8.4
General expense	-10.8	-12.5
Gross loss	-3.1	-38.1
Depreciation, valuation adjustments and provisions	-6.2	-13.8
Income taxes	-2.8	1.4
Net loss from continued operations	**-12.0**	**-50.4**
Net loss from discontinued operations	**-26.1**	**-8.0**
Net loss	**-38.1**	**-58.4**
attributable to shareholders of Valartis Group AG	-43.2	-57.2
attributable to non-controlling interests	5.1	-1.2
Total assets	189	2,207
Total liabilities	58	2,047
Total shareholders’ equity (including non-controlling interests)	131	160
Closing price of VLRT bearer shares, in CHF	6.80	8.45
Dividend per share, in CHF	0.20	0.00
Dividend yield	2.9%	n/a

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

LETTER TO SHAREHOLDERS

Dear shareholders

Gustav Stenbolt,
Chairman and Delegate of the Board of Directors

In 2016, Valartis Group focused only on its core objectives to successfully overcome the challenges it faced. We completed the sales transactions governing divestment of the private banks Valartis Bank (Austria) AG in Austria and Valartis Bank (Liechtenstein) AG in Liechtenstein. Today, Valartis Group holds only a minority participation of 25 per cent in Norinvest Holding SA, the parent company of Banque Cramer & Cie SA.

The realignment of Valartis Group as a holding company as well as the adjustment of the organisational structure to fulfil the new requirements were the final objectives for 2016.

Valartis Group's financial basis is once again very stable. Group equity capital amounts to CHF 130.9 m (previous year: CHF 159.6 m), which translates into a new equity capital ratio of 69.4 per cent. Valartis Group AG's shareholder equity amounts to CHF 112.4 m (previous year: CHF 117.9 m). Overall, Valartis Group's balance sheet assets amounted to CHF 189 m.

VALARTIS GROUP TODAY

Following completion of the recovery process in autumn 2016 and the company's realignment to its current business model, Valartis Group was able to start into the new financial year 2017 on a solid basis.

The holding company business model is based on the core competencies: "Finance & Banking" and "Real Estate Project Management" and comprises the three strategic focuses: "active management" of own participations and "management of third-party assets" within the framework of the participations, plus "exercise of new opportunities".

Organisational structure
As a result of the special circumstances, in January 2016, the organisational structure was streamlined and the Board of Directors was reduced to three members.

The Executive Management, which had been made up of two members since 2015, was further streamlined in January 2016. Gustav Stenbolt additionally assumed the role as Delegate of the Board of Directors (CEO) following Stephan Häberle's decision to leave the company at the end of February 2017. Stephan Häberle is a proven private banking specialist and was Group CEO since 2015. The Board of Directors would like to thank Stephan Häberle for his valuable work and the commitment he showed to Valartis Group.

As at end-2016, Valartis Group employed in total 59 staff members in the Swiss front offices and service organisation, in the Russian real estate administration in Moscow and St. Petersburg (marketing, rental and maintenance) and in Luxembourg.

CONSOLIDATED FINANCIAL STATEMENTS 2016

The 2016 Valartis Group consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS) and taking into consideration a number of non-recurring, exceptional factors, show a Group loss of CHF 38.1 m for continued and discontinued operations (previous year on a comparable basis: Group loss of CHF 58.4 m). This is made up of a loss amounting to CHF 12.0 m for continued operations resulting from high operating expenditure in connection with the successful recovery in 2016, together with a loss amounting to CHF 26.1 m for discontinued operations. The latter is mainly a result of a reposting of exchange rate differences with the Austrian banking participation. These were reposted to the profit and loss account from equity capital, to which they had previously been booked. This had no impact on Valartis Group's consolidated equity capital and, thus, no effect on the net asset value of Valartis Group's shares.

Loss for continued operations
For continued operations, losses were reduced to CHF -12.0 m (31.12.2015: CHF -50.4 m) on the back of the positive result posted by commercial business (from CHF -3.5 m in 2015 to CHF +4.7 m in 2016) and other positive, ordinary results (from CHF -15.0 m in 2015 to CHF +8.1 m in 2016).

Operating expenditure was slightly down – despite the costs related to the recovery process – at CHF 19.8 m (31.12.2015: CHF 20.9 m). Personnel expenditure was up over the previous year from CHF 8.4 m to CHF 9.0 m. As a result of structural adjustments, the reduction in the number of employees and the end of advisory services, future operating expenditure will be much lower than over the last two years.

Business segments

Following divestment of banking activities in Liechtenstein and in Austria, the former business segment "Private Clients" has been eliminated. Business activities and participations which are amalgamated in the segment "Institutional Clients" remain in place. Due to the reduced size and the current organisational structure, there is now only one management level, an executive decision-making body, for managing the current participations – the CEO. Valartis Group, thus, now only has a single segment and reporting will cover that one business component only.

2016 DIVIDENDS

The overall positive financial circumstances 2016 put Valartis Group in a comfortable situation and that is reflected in the dividend policy. The Board of Directors will propose a dividend of CHF 0.20 per bearer share to the General Meeting on 16 May 2017. This corresponds to a total of CHF 0.947 m. In this way, the Board of Directors can express the extent to which it values its shareholders and thank them for the trust they have shown and continue to show.

CURRENT AND FUTURE FOCUSES

2017 will be another challenging year for Valartis Group. One of the central factors for success in our front-facing Private Equity, Real Estate Project Management and Financial Advisory Services units is, therefore, the rapid and successful establishment of new profitable activities and the further development of existing projects. Valartis Group is focused on market cultivation, is working on developing and launching innovative investment possibilities and adjusting its range of services to demand. During the course of making new investments, we will target income-oriented majority and minority participations in selected companies.

THANK YOU

We would like to take this opportunity to thank our employees and express our appreciation and respect for their loyalty. We also want to thank you, the clients and shareholders of Valartis Group AG, for your trust in us and for the understanding you have shown in a very difficult period. We are confident that Valartis Group is now well-positioned and ready to face future challenges – and that the Group will return to sustainable corporate success.

Baar, Canton Zug, Switzerland, 3 April 2017

Gustav Stenbolt
Chairman and Delegate of the Board of Directors

EXECUTIVE MANAGEMENT REPORT

VALARTIS GROUP'S BUSINESS PERFORMANCE AND ECONOMIC SITUATION

Financial year 2016 was mainly characterised by completion of the successful recovery of Valartis Group AG on 17 November 2016, and the divestment of core competencies upon which it depended. Valartis Group AG is now fully recovered, solvent and retains a solid equity capital base.

The 2016 Valartis Group consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS) and taking into consideration a number of non-recurring, exceptional factors, show a Group loss of CHF 38.1 m for continued and discontinued operations (previous year on a comparable basis: Group loss of CHF 58.4 m). This is made up of a loss amounting to CHF 12.0 m for continued operations resulting from high operating expenditure in connection with the successful recovery in 2016, together with a loss amounting to CHF 26.1 m for discontinued operations. The latter is mainly due to a reposting of exchange rate differences in Austria. In 2016, Valartis Bank (Austria) AG, which had been acquired in 2008, was divested to Wiener Privatbank SE within the framework of an asset deal. As a result, exchange rate losses on this participation – held in Euros – amounting to CHF -40.1 m, which had formerly been posted to equity, were transferred to the profit and loss account in FY2016, in accordance with IFRS. This non-recurring factor has no impact on Valartis Group's consolidated equity capital and, thus, no effect on the net asset value of Valartis Group shares.

Financial year 2016 – an overview

On 17 November 2016 the Cantonal Court of Zug approved the application for lifting of the definitive moratorium on Valartis Group AG following its complete recovery.

The divestment of the private banks in Austria and Liechtenstein, which were pre-conditions for the recovery of Valartis Group AG and the Liechtenstein-based finance holding, Valartis Finance Holding AG, were concluded on 1 April 2016 and 20 September 2016, respectively. The application for lifting of the deferment of bankruptcy for Valartis Finance Holding AG was approved on 28 October 2016 by the Princely Court of Liechtenstein. Valartis Finance Holding AG repaid all outstanding liabilities following closing on the Liechtenstein banking group's sales transaction on 20 September 2016 and is also now completely recovered and debt-free.

As of 31 December 2015, Valartis Finance Holding AG's liabilities owed to intra-Group creditors amounted to around EUR 66 m and around CHF 42 m. Valartis Group AG's liabilities, including an outstanding payment to an external creditor amounting to around EUR 21 m, totalled CHF 25.5 m as at 31 December 2015. In 2016, Valartis Group has repaid liabilities amounting to CHF 140.0 m. Divestment of the Liechtenstein-based banking group yielded a total of CHF 73.3 m in cash income for Valartis Group and the sale of assets in the Austrian bank achieved EUR 11.9 m. Further, equity capital amounting to EUR 66 m was freed up.

Due to the 2016 sales' transactions, there are still around CHF 11.2 m to be paid during 2017 from the so-called escrow accounts as long as no warranties are claimed; of this amount, CHF 2.1 m had been freed up by March 2017 from the Austrian transaction and CHF 5 m from the sale of the Liechtenstein-based bank and paid to the sellers, Valartis (Austria) GmbH, respectively Valartis Finance Holding AG, Liechtenstein. Also, Valartis Group has received in March 2017 the considerations from the sale of the share of the real estate on Rathausstrasse 20 in Vienna, held by Valartis (Austria) GmbH, in the amount of EUR 4.8 m.[1]

The divestments of the private banking business in Austria and the sale of the participation in Valartis Bank (Liechtenstein) AG, mean that, as of 20 September 2016, all prerequisites for consolidated supervision by the Financial Market Authority Liechtenstein (FMA) have been eliminated at the level of Valartis Finance Holding AG, Liechtenstein.

Loss from discontinued operations

As a result of the successful divestments in 2016, IFRS provisions governing continued and discontinued operations apply to the Valartis Group 2016 Annual Report (Discontinued Operations, IFRS 5).

The impact of the various divestments is reflected in the loss from discontinued operations which amounts to CHF 26.1 m (31.12.2015: loss of CHF 8.0 m):

- Profit from divestment of the Liechtenstein-based banking group (share purchase agreement) amounting to CHF 26.2 m.
- Net loss from the sale of assets in the Austrian bank (asset purchase agreement) amounting to CHF 2.4 m.
- Loss amounting to CHF 40.1 m from reposting of currency translation differences on the Austrian divestment previously posted to equity capital.
- Revaluation of the IFRS book value of the Darsi Group amounting to CHF 9.8 m (amortisations, 2016 loss contributed from the profit and loss account, advisory costs and local capital gains taxes at 15 per cent). The minority participation in the shopping, leisure and business center in Algeria (SCCA) has been sold to another investor within the framework of a share purchase agreement (SPA; for details, see pages 54, 61, 80).

1 See also Note 45.

VALARTIS GROUP'S FINANCIAL BASIS

Valartis Group's financial basis is now once again very stable. Equity capital amounts to CHF 130.9 m (previous year: CHF 159.6 m). This translates to a new equity capital quota of 69.4 per cent.

The consolidated cash flow statement has been largely shaped by the divestment of the two private banks. Cash and cash equivalents have increased on a net basis from CHF 23.4 m to CHF 24.5 m in spite of the fact that during FY 2016 significant restructuring costs materialised and liabilities were substantially reduced. Thus, liquidity improved significantly (see also Note 13).

EMPLOYEES OF VALARTIS GROUP

Valartis Group's employees were the deciding factor in the successful recovery of the company through their identification with the Group and their commitment to its objectives. They are essential in making Valartis Group successful and fit for its future competitiveness. For further details, see Corporate Sustainability, page 11 ff. Financial recognition for individual performance using modern compensation models is an important factor. In addition, it was a central concern of the Board of Directors to recognise employees' performances in a suitable manner for 2016. For further details, see Compensation Report, page 27 ff.

The Board of Directors and Executive Management of Valartis Group AG would like to take this opportunity to thank Valartis Group AG's employees for the extraordinary commitment they have shown over the last two years and for the loyalty that they have demonstrated.

As at end-2016, Valartis Group[1] employed 59 members of staff in continued operations (adjusted for part-time employees) in Switzerland, Moscow and St. Petersburg as well as in Luxembourg (previous year on a comparable basis: 54 employees).

The new organisational structure of Valartis Group[1] comprises the Board of Directors on Group level with the Chairman of the Board of Directors as CEO plus 16 full-time employees. Based on the more streamlined management structure and services required within the Group, the number of employees in the Swiss organisation was substantially reduced from 21, as at end-2015 to 11 at the start of 2017 (of whom 6 work in the front organisation). These employees provide services in the fields of real estate projects, investment projects, Corporate Finance and, within the framework of the Group's service organisation, in Group Accounting & Controlling and IT. Other services which are required (personnel administration and tax and legal advisory) are obtained from third-party, external providers.

RISK ASSESSMENT

The Board of Directors monitors supervision of the risk management system and processing of all risks on a quarterly basis and produces corresponding reports. Significant, current risk issues are discussed and evaluated. This then forms the basis for strategic and organisational decisions aimed at optimising Valartis Group's risk positions. A core factor is the design and further development of the internal control system which identifies risks, addresses them by implementing the appropriate control measures and should thus minimise the probability of their ever arising. The implementation of suitable risk management and control processes which support identification, evaluation, management, as well as monitoring and communication of the most significant risks and the related risk concentrations, makes it possible to take all risks into consideration. The focus is to achieve early transparency on risks and to reduce the potential dangers of losses.

The accounting-related internal control system

Valartis Group's internal control system encompasses all principles, procedures and measures which are intended to assure the effectiveness, economical efficiency and correctness of accounting and compliance with the appropriate legal stipulations. It is based on the international "COSO" model and comprises the following components: control environment, risk assessment process, accounting-related information systems, control activities and monitoring of the internal control system (ICS). Since the due reporting date, no major changes have taken place which would require adjustment of the internal control system.

BUSINESS PERFORMANCE 2016

Profit and loss account

In continued operations, the loss decreased to CHF -12.0 m (31.12.2015: CHF -50.4 m) on the back of the positive result from trading (from CHF -3.5 m in 2015 to CHF +4.7 m in 2016) and positive other ordinary income (from CHF -15.0 m in 2015 to CHF +8.1 m in 2016). Trading income in 2016 was considerably improved over the previous year as a result of raised ruble and USD valuations on private equity participations and ENR Russia Invest SA's securities portfolio.

Other ordinary income includes net income from real estate amounting to CHF 6.1 m, related financing expenses of CHF 1.9 m and revaluations on ENR Russia Invest SA real estate projects amounting to plus CHF 1.0 m. Overall, other ordinary income was up by CHF 23.1 m over the previous year.

Profit from commissions and services comprises income from management services. From a purely operational viewpoint, profit from commissions and services – although still remaining at a low level – were up at CHF 5.1 m (31.12.2015: CHF 3.5 m).

1 See organisational chart on p. 9.

Operating expenditure was slightly down – despite the costs related to the recovery process – at CHF 19.8 m (31.12.2015: CHF 20.9 m). Personnel expenditure was up over the previous year from CHF 8.4 m to CHF 9.0 m due to higher costs in discontinued operations and payments and provisions in connection with bonuses which were approved by the Compensation Committee at end-2016. In 2017, personnel expenditure will be significantly reduced as a result of the new organisational structure and the substantially lower number of Valartis Group employees in Switzerland (for details, see page 6).

Material expenditure was down to CHF 10.8 m (31.12.2015: CHF 12.5 m), of which, in 2016, 50 per cent were attributed to advisory costs as in the previous year.

In total, over the two years of the recovery process – 2015 and 2016 – Valartis Group required CHF 4.3 m in advisory costs in relations with the divestments and CHF 3.9 m for the implementation of the recovery process (moratorium in Switzerland the deferment of bankruptcy in Liechtenstein.

BALANCE SHEET

As of 31 December 2016, the balance sheet total amounting to CHF 188.7 m, including assets classified as held for sale, decreased significantly as a result of divestment of the banking participations, together with their balance sheet totals (31.12.2015 balance sheet total: CHF 2.2 bn). External capital is now limited to CHF 57.8 m, of which roughly half can be attributed to one, fully consolidated Group company's property (ENR Russia Invest SA) which has been externally financed by means of a loan. While Group equity capital as at end-2016 amounted to CHF 130.9 m (end-2015: CHF 159.6 m), Valartis Group AG shareholders' capital now amounts to CHF 112.0 m (as at end-2015: CHF 117.9 m).

SIGNIFICANT EVENTS

For information on significant events after the balance sheet date, please see also the Valartis Group Consolidated Financial Statements, Note 45.

Significant events after the balance sheet date
The most significant events after the balance sheet date include the release of funds amounting to CHF 2.1 m from the escrow accounts from the Austrian sales transaction, the closing of the sale's transaction of the share of the real estate SPV for Rathausstrasse in Vienna in the amount of EUR 4.8 m and release of these funds, and the signed share purchase agreement for the sale of the participation in Darsi Group. Furthermore, the profit allocation to Valartis Group of the 2016 financial results of the Liechtenstein Bank sold during 2016 have also been transferred.

Segment reporting
Following divestment of banking activities in Liechtenstein and in Austria, the former business segment "Private Clients" has been eliminated. Business activities and participations which are amalgamated in the segment "Institutional Clients" remain in place. Due to the reduced size and the current organisational structure, there is now only one management level, an executive decision-making body, for managing the current participations – the CEO.[1] Within the framework of the new business activities, the Corporate Center segment, as a business component, no longer generates its own income from ALM (exchange rate income, earnings on a bonds portfolio, etc.).

Valartis Group, thus, now only has a single segment and reporting will be in accordance with IFRS 8 and will only cover that one business component. See also Notes on Consolidated Financial Statements, Note 40.

OUTLOOK

Overall economic outlook
2017 will continue to throw up challenges. To the fore, are the next developments in monetary policy in the USA which has just got started on its course towards normalisation, while the expansion course set, and then further tightened, by the European Central Bank (ECB) for all other European Central Banks – above all the Swiss National Bank – will remain challenging. Further uncertainty is likely to arise out of the troubled transformation processes in important emerging countries, whose budgetary and corporate balances have deteriorated starkly since the financial crisis.

Further Valartis Group developments
In 2017, the central focuses for our front-facing Private Equity, Real Estate Project Management and Financial Advisory Services units will be the rapid and successful establishment of new profitable activities and the further development of existing projects, with setting a significantly higher bar in relation to results

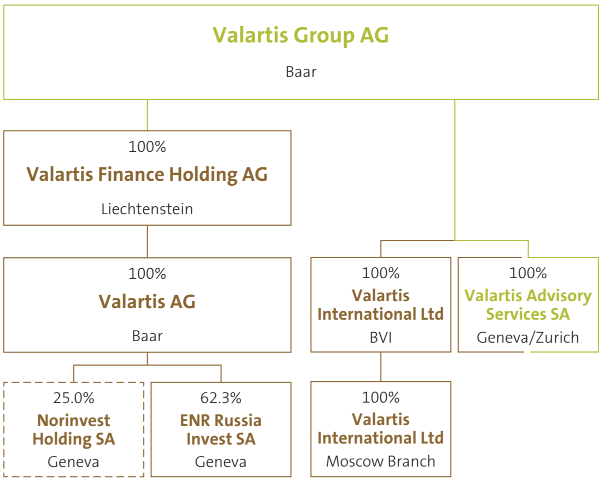
1 See also Note 18 and Note 42 on Valartis Group's Consolidated Financial Statements.

as one of the aims which must be maintained. Valartis Group is focused on market cultivation, is working on developing and launching innovative investment possibilities and adjusting its range of services to demand. Towards end-2016, the service organisation was restored to normal operations from the emergency situation under which it had operated during the recovery phase and is now finalising the concluding steps of the transformation as well as continuing operational daily business. Group structure will be realigned to meet the requirements of the new circumstances, requirements and range of services, which will entail adjustments to Group organisation and infrastructure. From a strategic and tactical viewpoint, in 2017, the focus will be on establishing and managing participations which are in-line with Valartis Group's strategic guiding principles. For further information, see Strategy and Objectives, page 9 f.

STRATEGY AND OBJECTIVES

Valartis Group is an international finance group with offices in Switzerland, Luxembourg, Moscow and St. Petersburg. Valartis Group AG, domiciled in Baar, Canton Zug, Switzerland, is the parent company of the Group. Valartis Group's bearer shares are listed on SIX Swiss Exchange (ISIN CH0001840450). Valartis Group AG has direct and indirect participations in fully consolidated companies (see Valartis Group Consolidated Accounts, Note 42), together with equity consolidations (see Valartis Group Consolidated Accounts, Note 18).

Valartis Group – organisation structure



STRATEGIC FOCUS

Divestment of the private banking business in Austria and the participation in Valartis Bank (Liechtenstein) AG meant that as of 20 September 2016 consolidated banking supervision by the Financial Market Supervisory Authority Liechtenstein (FMA) was no longer required. Thus, Valartis Group AG and all Group companies are currently no longer subject to consolidated banking supervision. Taking into consideration the basic principles of risk capacity, returns-oriented acceptance of risks is now central to risk management, in place of operational banking business.

Strategy is founded on the two core competencies of financial services and real estate projects and comprises three operational focuses: "active management of own participations" and "management of third-party assets" within the framework of participations, together with "taking advantage of new opportunities".

In the course of seeking new investment opportunities, Valartis Group will focus on profit-oriented majority and minority participations in carefully selected companies.

Organisational structure

Board of Directors and Executive Management

During the course of the recovery process and the realignment in January 2016, see also Media Release of 28 June 2016: Outcome of the Valartis Group General Meeting 2016; www.valartisgroup.ch/de/News-Medien/News-Medienmitteilungen. Valartis Group adjusted its Board of Directors to the special situation and reduced its number of members to three. Since the Ordinary General Meeting of 28 June 2016, the Board of Directors of Valartis Group has been made up of the following: Gustav Stenbolt, Chairman of the Board of Directors, Christoph N. Meister, Vice-Chairman and Philipp LeibundGut, member; see also Media Release of 31 January 2017: Group CEO Stephan Häberle to leave Valartis Group, www.valartisgroup.ch, section News. The Executive Management was reduced to two members already in summer of 2015 and was further reduced in January 2017, as the Chairman of the Board of Directors, Gustav Stenbolt, additionally assumed the role as the Delegate of the Board of Directors (CEO)[3]. George M. Isliker remains Group CFO/CRO.

Organisation chart

1 Member of the Compensation Committee
2 Audit Delegate
3 As of March 2017. Stephan Häberle has decided to step down as Group CEO and to leave the company as of end of February 2017.

2016 Valartis Group employed in total 59 staff members. The number of employees within the Group in Switzerland was substantially reduced from 21 as at end-2015 to 11 at the beginning of 2017, as a result of the more streamlined management structure and range of services provided (of those, 6 employees are in the front organisation). The employees provide services in the fields of real estate management projects, investment projects, Corporate Finance and, within the framework of the Group services organisation, in the fields of Group Accounting & Controlling and IT & Logistics. Other services required by the company (personnel administration and tax and legal advisory services) have been outsourced.

Due to full consolidation of Group companies, employees at Valartis International Ltd, Moscow (27 employees) and in St. Petersburg (16 employees) have also been added to the total number of employees. These employees provide services in the fields of real estate administration (marketing, rental and maintenance).

Focused growth
One of the main challenges in the process of constructing investment portfolios is solving the central conflict involving optimising yields which can be expected within a given period of time (value growth including interest plus dividends and minus costs), on the one hand, and, on the other, limiting the risk of losses. Typically, the structure and composition of investments develop a certain consistency over time, which implies anticyclical behaviour i.e., opportunities together with certain risks. Cyclical behaviour would mean sharp annual changes in the proportional composition of investments, which would be linked with increased transaction costs.

Measures to raise income and cost controls
The realignment of Valartis Group as a holding company, as well as realignment of the organisational structure to fulfil the new requirements, were the final objectives for 2016.

All the Group's front-office operating units have introduced current, or newly designed, programmes aimed at raising income or lowering costs, in order to achieve the targeted increase in efficiency and profitability as quickly as possible. The Executive Management, in particular, is actively working towards enhancing short-term flexibility – despite tightening requirements and the challenges of constructing further investment portfolios – in order to make the business model more scalable and to maintain control over costs. A balanced approach to risks and a focus on the criteria governing risk-bearing capability remain core principles. The internal control system (ICS) is consistently being enhanced to enable efficient management of operational risks. For details, please also see Valartis Group Risk Management, Valartis Group Consolidated Accounts, page 62 ff.

Raising income from commissions
In addition to the design and management of an investment portfolio, Valartis Group is also focusing on raising income from services. This means that commission income must be raised in order for all operating costs to be sustainably covered and, in addition, to generate positive income contributions in the medium term. Cooperation opens up opportunities, not only to counter increasing costs, but also to develop and implement joint investment projects. With this in mind, Valartis Group is in regular contact with partners in order to take advantage of, and to optimise, existing resources.

OUTLOOK

The focus for the front-office operating units for 2017 lies in the successful implementation of new, profitable activities, together with the further development of current projects, with the target of significantly enhancing profitability. Valartis Group will hone its market activities by designing and launching innovative and promising investment opportunities with attractive timelines and by consistently adjusting its range of services to meet demands.

CORPORATE SUSTAINABILITY

SUSTAINABLE CORPORATE MANAGEMENT

Valartis Group is an international company with a broad network, and we are mindful of the diversity and high level of importance of our international and local stakeholders. To achieve sustainable and successful business development, particularly in a phase of restructuring and realignment of our business model, it is, therefore, crucially important that we know exactly what they require and what their interests are and that we take these into consideration in the further development of our Group.

In addition to purely economic criteria, we also integrate social and ecological aspects into our daily thoughts and actions, in order to reflect our corporate responsibility. Our ethical and professional values, such as integrity, respect, trust, client and dialogue orientation, cooperation and transparent communication, together with our strong sense of responsibility, are collected in our Code of Conduct.

> "Sustainable business practices and related profitability are core to our long-term success. We integrate ecological and social aspects into our business decision making, management of our resources and into our infrastructure. We want to achieve continuous sustainability for our internal and external stakeholders." [1]

1 Valartis Group Code of Conduct, Sustainability.

A primary function of our Code of Conduct is to make all the people working for the company suitably aware of relevant legal stipulations and company policies and to heighten their alertness to legal risks in their daily work. The Code of Conduct summarises laws and other regulations which are of particular relevance for Valartis Group and provides orientation guidelines. These guidelines, which are binding, dictate legally conform and ethically responsible behaviour and also define the standards for correct and responsible behaviour towards business partners and the public, and towards other employees in the company. All employees and the Board of Directors are duty-bound to uphold the principles listed in the Code of Conduct (see graph on the right). Valartis Group conducts open, transparent dialogue and aspires to a partnership based on trust and responsibility with clients, partners, investors and colleagues. We understand the central significance of good corporate governance for the sustainable success of our business, and work accordingly to ensure implementation of corporate governance standards and adhere to the principles and recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, respectively.

Corporate Responsibility

VALUE RETENTION AND PARTNERSHIP

We are dedicated to our traditional values of trust, partnership, risk and responsibility consciousness, dialogue and innovation, coupled to competence, know-how and our many years of experience. Our core competencies – banking and finance, and real estate project management – are the foundation of our current orientation as a holding company.

Risk management and compliance

We regard risk management and compliance as being of pivotal significance – from the viewpoints of conformity with regulations, i. e., with laws and with guidelines, but also with voluntary codes. Compliance is charged with observance of legal responsibility and for ensuring adherence to all relevant internal and external regulations, together with timely implementation of all new regulatory stipulations. Our business activities are grounded in a disciplined, prudent approach to risks. We only assume risks which we can assess, evaluate and carry within our risk appetite. In the interests of, and in order to protect our stakeholders, the Group also places a high level of emphasis on independent risk management, compliance and audit procedures (see also Risk Management, page 16 and 62 ff.).

As a result of the current strategic orientation as a holding company, Valartis Group's regulatory framework conditions – Valartis Group is no longer subject to consolidated supervision by a Financial Market Supervisory Authority after the sale of all the banks of the Group – as well as the risk management-related requirements have altered due to the significant reduction of the number of potential risks (for details see Risk Management, page 16 and 62 ff).

FOR OUR SHAREHOLDERS – TRANSPARENT AND SUSTAINABLE CORPORATE DEVELOPMENT

As a listed company, Valartis Group AG's public shareholders, with a free float of 44.5 per cent of shares, and the majority shareholder, MCG Holding SA, in Baar, Canton Zug, which holds 50.2 per cent of capital and voting rights (see Bearer Share, page 91 or Note 30) represent important stakeholders. The remaining shares are held directly by the company.

We consider ourselves as being obligated to our majority and minority shareholders to generate sustainable profit. This not only enables targeted reinvestment in business activities, but also permits the establishment of reserves for economically difficult periods. The Group also wants to award their shareholders appropriate interest on the capital.

For sustainable business development – value-driven management

In 2011, we established a holistic corporate management approach centered on a systematic, multi-level financial planning management process using a dual control concept, with a clear separation between decentralised control of front-office operating activities and a centralisation of the service organisation, including the Group's own financial investments and hedging strategies. Against the backdrop of the current situation, the holistic corporate management approach will further apply whereas the dual control concept is obsolete due to the considerable downsizing of the Group and its front-office operating activities.

Board of Directors and Executive Management

Determination of the mid- and long-term strategic orientation of Valartis Group is the responsibility of the three-member Board of Directors who, stemming from their professional backgrounds, all have vast experience and expertise in finance and banking, international investments and investment projects as well as finance and accounting, risk management, and internal control systems (see also Corporate Governance, page 17 ff.). The strategic mandates issued by the Board of Directors are implemented by Executive Management. This body is also responsible for the operative management of Valartis Group and its results. In its role as a decision-making body, it defines gross profit performance targets for the coming three years as part of the rolling, operational mid-term planning, and determines the core tactical approach on Group level.

The responsible managers for Private Equity, Real Estate Project Management and Corporate Finance report to the CEO. Based on a detailed annual plan, they each determine the risk and return budgets for the coming year and decide on the appropriate use of funds within the budget. Non-operating, taxable returns and expenditure, such as trading or valuation gains, however, are not included in mid-term planning. Close monitoring of results and discussion on a monthly basis facilitate rapid implementation of any necessary countermeasures, without disruption of operations, particularly if significant deviation from the set budget occurs. At the same time, appropriate information and risk management systems make it possible to maintain control over operating risk, at all times (see Risk Management, page 16 and 62 ff.). The three-year capital plan represents conclusion of the financial management process.

SUSTAINABLE EMPLOYEE DEVELOPMENT

We are proud to have employees who are willing to accept a challenge and overcome obstacles and who are committed to their work for the Group as a whole, even in difficult periods. In particular, during the demanding phase throughout 2015 and 2016, our employees demonstrated a high level of loyalty and extraordinary commitment.

The challenging framework conditions in the international competitive environment make it even more important going forward to offer employees carefully planned, sustainable support and continuous further training. Our international orientation demands a high level of professionalism, expertise, knowledge of people and cultures as well as observance of our values. Valartis Group will only be able to operate sustainably and overcome future challenges based on the specific specialist knowledge of each one of its employees, their extraordinary, solution-oriented service philosophy and their high level of personal commitment.

In return – whenever possible – we offer our employees flexibility so that they can balance their working lives and their private lives. We follow a value-driven management approach which comprises management based on partnership, a working climate based on cooperation and camaraderie, attractive, market-conform basic salaries, performance-related compensation, progressive social benefits, and incentives for further development.

Reconciliation of working life and family, or an adequate work-life balance, is a fundamental prerequisite for long-term employee performance capability. For that reason, the Group offers leave and public holiday provisions which are in line with the market and aligned regionally, together with the possibility to work flexible hours. We are also open to the concept of Home Office in as far as it is in accordance with operating requirements.

We apply the principles of equality to individual determining of compensation. Female specialist employees in the various locations who have the same qualifications and experience as their male colleagues in principle receive the same salary. Gender equality issues are governed by the stipulations of the Personnel Regulations. Our culture of free expression of individual opinions also supports a high level of employee participation and co-determination.

OUR PROMISE TO THE EMPLOYEES

Accept social responsibility	Sustainable employee development – future-driven	Value-driven compensation system – target-oriented, appreciation	Values – trust, responsibility, cooperation
We want all our employees to enjoy an adequate work/life balance, i.e., a favourable ratio between career and family and a suitable balance of work and leisure time, exercise and nutrition. For that reason, the Valartis companies offer holidays and holiday provisions which are in line with the market and aligned regionally.	We promote and enable personal and professional development within the Group. We have institutionalised internal and external training and further training.	We offer compensation which is in line with the market in all our locations (for details please see Compensation Report, p. 46 ff.). The compensation system provides incentives which promote a performance, team and risk-aware culture and entrepreneurial thinking and action which strengthen Valartis Group as a whole.	We pursue the principle of equality, in particular in determining salaries. Female specialists who work in the same location and have the same qualifications and experience as their male colleagues always receive the same salary as their male colleagues. We offer to, and expect from, our employees an open attitude to, and respect of, all nationalities, cultures, mind-sets, age groups and needs.

Value-driven compensation system – target-oriented and appreciative
We are committed to a fair, balanced and performance-oriented compensation policy and offer employees in all Group companies progressive social benefits, on top of attractive basic salaries which are in line with the market, and an incentive-driven bonus system, which appropriately honours above-average performances. Our value-driven compensation system is intended to support the Group's mid-term economic success and sustainable competitiveness (see Valartis Group Compensation Report, page 46 ff.)[1]. We promote a performance, team and risk-aware culture and encourage independent, entrepreneurial thinking and action in the interests of the Group. In addition to targeted employee support and development, market-conform basic salaries and progressive social benefits, Valartis Group also offers its employees a range of fringe benefits, such as tokens of appreciation for different periods of employment with the company, weddings and births, as well as discounts at external partners.

1 Due to the considerable downsizing of Valartis Group following divestment of the private banks over the last three years, and the current positioning as a holding company, in its meeting on 20 December 2016, the Compensation Committee decided to replace the current bonus programme with an employee participation programme which has still to be drafted.

SOCIAL COMMITMENT

Valartis Group's commitment
As a socially responsible company, Valartis Group supports a range of international charitable organisations, although only to a modest degree over the last few years owing to the smaller size of the company. A new concept for the Group's social commitment is currently being developed. This will be adapted to the current, strategic orientation and positioning of Valartis Group as a holding company and enhancement of the Valartis Group brand.

Group CEO commitment
Since 2016, Stephan Häberle, Group CEO (to end-February 2017), has been supporting – without salary and in an honorary role as member of the Swiss Foundation Board – the EurAsia Heart Foundation. EurAsia Heart Foundation has established a medical network of international specialists in the field of heart and circulatory illness which works, in particular, with children in Eastern Europe, Asia and Africa (see www.eurasiaheart.ch).

FOR THE ENVIRONMENT – FUTURE-DRIVEN, LONG-TERM BALANCE

In managing the business, we are guided by the fundamental principle of achieving an adequate and future-driven, long-term balance between our economic, social and ecological responsibilities as a company.

With regard to sustainability issues, as a holding company, we will continue to focus on the efficient use of resources because we are convinced that this will remain a deciding factor in the long-term success of our company and our investment portfolio. Stakeholders will continue in future to intensify their demand for concerted action in connection with sustainable use of non-renewable resources, together with further enhanced resource efficiency and increased use of renewable energy sources.

KEY EMPLOYEE DATA 2016

per 31.12.2016	2016	2015
Number of employees (continued business activities)	59	54
Nationalities	9	9

Systematic recording and evaluation of ecologically relevant information are currently not viable on the grounds of our limited size and capacity.

We reduce our ecological footprint, for example by:
- Always using public transport for business trips (free multi-trip tickets are made available, employees may travel by train in first class).
- Challenging every flight.
- Using new technology for meetings (online or video conferences).
- Increasing the efficiency of electricity for computer systems and other appliances.
- Optimising use of paper. The 2016 Valartis Group Annual Report is only available online.
- Updating online communication tools and platforms and offering more user-friendly versions: microsite and apps for Annual Reports and publications.
- Constructing cooling ceilings in our offices which provide a comfortable climate in summer and in winter.
- Collecting used paper and appropriate disposal.
- Purchasing beverages for clients and employees in returnable bottles which are returned to the dealer.

VALARTIS GROUP RISK MANAGEMENT

RISK SITUATION OF VALARTIS GROUP

Overview
The sale of the Valartis Group private banks together with their asset and fund management companies in 2016 meant that, on the one hand, consolidated banking supervision was no longer required and, on the other hand, that risk density and therefore the demands on risk management and risk controlling were considerably reduced due to the dramatic reduction of risk on the asset side. As at, and including, 31 December 2016, the balance sheet total amounting to CHF 188.7 m posted for assets classified as held for sale decreased considerably as a result of divestment of the banking holdings (together with the balance sheet totals). (31.12.2015, balance sheet total posted CHF 2.2 bn.) Valartis Group AG's shareholders' equity, however, remained constant at CHF 112.0 m (as at end-2015: CHF 117.9 m).

On 20 September 2016, divestment of the Liechtenstein-based banking group meant that consolidated banking supervision by FMA Liechtenstein was no longer necessary. Valartis Group is currently not subject to any supervision by a banking supervisory authority. However, risk management of the remaining risks on the asset side continues to be founded on the professional principles of value-oriented corporate management, which includes tailored acceptance of risks and the careful control of those risks. Taking into consideration the basic principles of risk capacity, returns-oriented acceptance of risks is now central to risk management.

Organisation of risk management
Following divestment of Valartis Group's banking activities, risk organisation was adjusted to better conform to the new situation. The former cooperation between decentralised and centralised risk management departments was replaced by a streamlined, centralised risk management organisation.

The Board of Directors, as the highest supervisory body, remains responsible for the overall risk management of Valartis Group and determines risk policy. It is responsible for setting the annual risk budget, setting limits and the maximum risk tolerance (quantitative and qualitative) in relation to the Group's overall risk capacity. Operational management is responsible for implementing risk management and control principles and assures that set limits are always adhered to. For further information on risk monitoring and risk evaluation, see Executive Management Report, page 5 ff.

Valartis Group's activities currently only comprise the following types of risk:
– Market risks (changes in exchange rates on investment assets, interest rate changes and foreign currency risks)
– Liquidity risks
– Credit risks (default risk on bonds)
– Non-counterparty-related risk (real estate project risk)

Foreign currency risks can be regarded as being the main risk category. For further details, see Valartis Group risk management in Valartis Group Consolidated Accounts, page 62 ff.).

CORPORATE GOVERNANCE

Valartis Group regards robust corporate governance as a key factor in ensuring the commercial success of the Group, particularly in crisis situations. 2015/2016 were characterised by the Valartis Group moratorium (creditors' protection), which was lifted by the Cantonal Court of Zug on 17 November 2016, due to the successful recovery of Valartis Group AG. In circumstances such as these, which are critical for the future of the company, rigorous implementation of acknowledged standards in corporate governance in order to adequately protect the interests of all stakeholders are of vital significance. Protecting the interests of all groups of stakeholders, a transparent and comprehensive information policy together with a tailored compensation policy all represent important elements of Valartis Group corporate governance. On top of that, corporate governance enables evaluation of the executive abilities of the Board of Directors and Executive Management and regulates the relationship between leadership and control of the Group.

LEGAL GUIDELINES AND PRINCIPLES

Valartis Group adheres to the principles and recommendations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse and, in particular, to the Appendix containing recommendations relating to compensation for the Board of Directors and Executive Management (see Compensation Report, page 27ff. Valartis Group is listed on the Swiss Stock Exchange, SIX Swiss Exchange (SIX) and accordingly is also subject to the SIX Exchange Regulations. Valartis Group's management principles comply with the Directive on Corporate Governance (DCG) from 1 January 2016, issued by SIX, and with the Duty of Disclosure in accordance with Art. 663b, up to and including Art. 663c, para. 3 of the Swiss Code of Obligations (OR). Unless otherwise indicated, all information is as of 31 December 2016.

VALARTIS GROUP CORPORATE GOVERNANCE GUIDELINES

Valartis Group's corporate governance guidelines clearly define the roles, competencies and areas of responsibility of management and supervisory bodies, govern balanced distribution thereof and provide appropriate control of adherence thereto. All principles and guidelines referring to corporate governance are binding for the organisation and management of Valartis Group. The following documents constitute the corporate governance guidelines of Valartis Group and include the following elements:

- The Articles of Association define the corporate objective and the overall organisational framework requirements of Valartis Group. The Articles of Association are published on www.valartisgroup.ch, Investor Relations.
- The Code of Conduct of Valartis Group defines the ethical and professional core values such as integrity, respect, client and dialogue-orientation and fairness, as well as transparent communication and sustained sense of accountability.
- The internal Organisational Rules of Procedure define Valartis Group's responsibilities and competencies.
- The regulations of the Compensation Committee define the duties and responsibilities of the committee and individual members (see also pages and Compensation Report pages 28 ff.).
- Valartis Group's compensation policy defines the fundamental elements and principles of an appropriate system of compensation for members of the Board of Directors and Executive Management (see Compensation Report 2016, page 28 ff.).
- Valartis Group's responsibilities and competencies determined in the Organisation Rules of Procedure are – if appropriate – additionally described and defined in other regulations, such as Consolidation Supervision or Risk Policy. The Board of Directors determines Valartis Group's risk policy and monitors implementation thereof; see page 16 and 62 ff.
- After the reduction of the number of the members of the Board of Directors from five to three in 2015, the Audit Committee was dissolved in 2015 and Christoph N. Meister was appointed the Board's audit representative.

Corporate Governance

CORPORATE STRUCTURE AND SHAREHOLDERS

Corporate structure

Valartis Group is a public limited company in accordance with Swiss law, based in Baar, Canton Zug, Switzerland. The bearer shares of Valartis Group AG (ISIN CH0001840450) are listed on the Swiss stock exchange, SIX Swiss Exchange. As of 31 December 2016, market capitalisation of Valartis Group amounted to CHF 34 m, which corresponds to CHF 6.80 per share of the total of 5,000,000 issued. As of 31 December 2016, 5.3 per cent or 264,488 shares were held by the Group.

The organisational chart on page 9 shows the operating structure of Valartis Group Institutional Clients and service activities of the Corporate Center. Segment reports, notes and further information can be found on pages 5 ff and in Note 40.

Circle of Consolidation
The operative Group companies and major participations which are consolidated under Valartis Group AG (scope of consolidation) are listed in detail in Note 42 to the Consolidated Financial Statement together with information on company name, domicile, purpose, share capital, participation quota, share of capital and voting rights. Associated companies are listed and described in Note 18 to the Consolidated Financial Statements.

The following major participation in the scope of consolidation is listed on the Swiss stock exchange, SIX Swiss Exchange: ENR Russia Invest SA, Geneva (Switzerland), ISIN CH 0034476959.

Major shareholders
MCG Holding SA, Baar, Canton Zug, Switzerland, directly holds 50.2 per cent of the capital and voting rights of Valartis Group AG. Beneficial owners of MCG Holding SA are: Gustav Stenbolt, Geneva; Philipp LeibundGut, Zurich; Pierre Michel Houmard, Geneva; and Tudor Private Portfolio LLC, Greenwich, USA.

Nebag AG, Zurich, Switzerland, holds around 3.2 per cent of capital and voting rights. In 2016, INTEGRAL Stiftung für die berufliche Vorsorge (occupational benefits foundation), Thusis, Canton Grisons, Switzerland reduced its participation to less than 3.0 per cent of capital and voting rights in Valartis Group AG.[1] No other shareholders are known with holdings of over 3 per cent of shares with voting rights. Detailed information on shareholder structure can be found in Note 32 and page 137. 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 Group companies.

CAPITAL STRUCTURE

Capital
The share capital of Valartis Group AG amounts to CHF 5,000,000 divided into 5,000,000 bearer shares with dividend and voting rights at a face value of CHF 1.00 each. All bearer shares in Valartis Group AG are fully paid in and listed in the main segment of the Swiss stock exchange, SIX Swiss Exchange. As of the closing date for financial year 2016, there are no financial instruments outstanding which could result in dilution of the company's equity.

Share register
There are no registered shares.

Conditional capital
Valartis Group AG has no conditional capital.

Authorised capital
Valartis Group AG has no authorised capital.

Changes to capital
There were no changes to the share capital of Valartis Group AG in the financial year 2016. Changes to overall share capital are listed on page 44 in the table Consolidated Statement of Changes in Equity.

Participation certificates
Valartis Group AG has no participation certificates.

Limitation of transferability and nominee registrations
There are no registered shares. Therefore, there are no limitations on transferability or nominee registrations.

Convertible bonds and options
Valartis Group AG has issued no convertible bonds.

1 See also: www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html

BOARD OF DIRECTORS

Gustav Stenbolt, born 1957

lic. rer. pol. University of Fribourg. Since 1 March 2017 Delegate to the Board of Directors and Chairman of the Board of Directors since 2015. From 2007 to 2015 Gustav Stenbolt was CEO of Valartis Group AG. Chairman of the Board of Directors of Valartis Advisory Services SA since 2014 and since 2009 Chairman of the Foundation Board of the Pension Fund of Valartis Group. He was Chairman of the Executive Board of Jelmoli Holding from 2004 to 2007. In 1996, he founded MCT Group in Geneva and was CEO to 2004. MCT merged with OZ Holding in 2005. The merged entity was renamed Valartis Group AG in 2007. From the period 1983 to 1996, CIO of Unifund for Asia, Latin America and Eastern Europe and CIS. Gustav Stenbolt is member of the Board of Directors of ENR Russia Invest SA (Chairman), Eastern Property Holdings Ltd, Norinvest Holding SA, and the Anglo Chinese Group Ltd, Hong Kong.

Christoph N. Meister, born 1953

Business economist HWV and Swiss Certified Auditor; former partner at Ernst & Young AG, Switzerland. Since 2011, he is member of the Board of Directors of Valartis Group AG and since 2015, Deputy Chairman as well as Audit Representative for Valartis Group since 2015 (from 2011 – 2015 Chairman of the Audit Committee) and Chairman of the Compensation Committee (since 2015). He also sits on the Board of Directors of Valartis Finance Holding AG (Liechtenstein) and Valartis AG. He was member of the Board of Directors of Valartis Bank (Liechtenstein) AG to end-2015 and member of the Supervisory Board of Valartis Bank (Austria) AG to January 2016. From January 1979 to November 2010 (from April 1993 as partner), Christoph N. Meister held various positions in the auditing profession – mainly in banking and finance – as lead auditor recognised by FINMA and FMA Liechtenstein.

Member of the Board of Directors[1]

Name	Function	Nationality	Elected to	Initial election
Gustav Stenbolt[2]	Chairman	Norwegian	2017	2015
Christoph N. Meister[3]	Deputy Chairman	Swiss	2017	2011
Philipp LeibundGut[4]	Member	Swiss	2017	2016

1 Stephan Häberle was no longer available for re-election at the General Meeting of 28 June 2016, due to the fact that following the Extraordinary General Meeting of 15 January 2016, he had taken over the dual function as Group CEO (since 2015) and member of the Board of Directors. Between 2014 and 2015, Stephan Häberle was already member of the Board of Directors. Given the new strategic orientation of the company as a holding company, on 31 January 2017, he decided to resign as Group CEO and to leave Valartis Group as of 28 February 2017; see media release from 31 January 2017: Stephan Häberle, Group CEO, to leave Valartis Group; http://www.valartisgroup.ch/en/News-Media/News-Media-Releases/

2 Gustav Stenbolt had been Group CEO since 2007, until his election as Chairman of the Board of Directors at the General Meeting of 2 June 2015. Gustav Stenbolt has been a member of the Compensation Committee since 2015. In addition, Gustav Stenbolt has been Chairman of the Board of Directors of Valartis Advisory Services SA since 2014. For further details, see page 19 (CVs of the members of the Board of Directors).

3 Christoph N. Meister has been a member of the Board of Directors since 2011 and Deputy Chairman since 2015. In addition, he has been Chairman of the Compensation Committee since 2015 and has also been audit representative for Valartis Group since 2015. Between 2011 and 2015, Christoph N. Meister was Chairman of the Audit Committee of Valartis Group. Christoph N. Meister was on the Board of Directors of the former Group company Valartis Finance Holding AG, Liechtenstein (from 2014 to 2015) and on the Board of Directors and/or Supervisory Board of the former Group company Valartis Bank AG, Switzerland (from 2011 to 2015), Valartis Bank (Liechtenstein) AG (from 2014 to 2015) and Valartis Bank (Austria) AG (from 2011 to 2016). For further details, see page 19 (CVs of members of the Board of Directors).

4 From 2011 to 2014, Philipp LeibundGut was member of the Executive Management of Valartis Bank AG, Switzerland. Since re-joining in 2016, Philipp LeibundGut has also been member of the Compensation Committee of Valartis Group. For further details, see page 20 (CVs of members of the Board of Directors).

Philipp LeibundGut, geb. 1973
A graduate of the collage of higher education in Basle (FHBB). Since 2016 member of the Board of Directors and of the Compensation Committee of Valartis Group. From 2011 to 2015, Philipp LeibundGut headed the Business Segment Institutional Clients and was member of Valartis Bank AG, Switzerland, until the bank was sold in 2014. His area of responsibilities comprised the activities Corporate Finance, Structured Finance and the Portfolio and Fund Management of the Bank. From 2002 to 2006 he was a member of the Executive Board of Valartis Asset Management SA, from 2005 to 2011, a member of the Board of Directors of Valartis Group AG, Valartis Bank (Liechtenstein) AG, Valartis Bonus Card AG as well as Eastern Property Holdings Ltd., Tortola, and a member of the Supervisory Board of Valartis Bank (Austria) AG. Prior to that, Philipp LeibundGut was an investment advisor at Hansa AG in Baar, Canton of Zug, Switzerland, from 1998 to 2001. His areas of responsibility also included the setting-up of an investment portfolio in Russia.

Annual General Meeting 2016

Board of Directors after Extraordinary General Meeting 2016
Due to the early departure of two members of the Board of Directors in 2015, the number of members of the Board of Directors and the Compensation Committee fell below the minimum statutory membership of three. Stephan Häberle, Group CEO, was elected member of the Board of Directors at the Extraordinary General Meeting of 15 January 2016. He assumed dual responsibilities as member of the Board of Directors and as Group CEO up to the Ordinary General Meeting of 28 June 2016.

Board of Directors after Annual General Meeting of 28 June 2016
At the Annual General Meeting of 28 June 2016, Gustav Stenbolt was affirmed as Chairman of the Board of Directors and Christoph N. Meister was affirmed as member of the Board of Directors and its Deputy Chairman, each for a period up to conclusion of the Annual General meeting 2017. Philipp LeibundGut was elected as member of the Board of Directors; see also the Media Release of 28 June 2016: Outcome of the Valartis Group AG General Meeting 2016; http://www.valartisgroup.ch/en/News-Media/News-Media-Releases/

As of 28 June 2016, the Board of Directors comprises three members who do not hold any Executive Management positions within the Group and who are considered independent in accordance with corporate governance guidelines and the criteria stipulated by the Swiss Code of Obligations and committee regulations, as well as under consideration of applicable law and listing standards.

For Valartis Group, as a smaller company, in selecting candidates to occupy open positions on the Board of Directors, the main focus lies on knowledge and international expertise of the candidate in question.

Articles of Association
The last amendment to the Articles of Association was unanimously endorsed at the General Meeting of 2 June 2015, (see also www.valartisgroup.ch, Investor Relations, General Meeting 2015).

Since the Annual General Meeting of 14 May 2013, each member of the Board of Directors is elected individually. Re-election is admissible. Should a member withdraw prior to the end of their term of office, a replacement is elected at the next Annual General Meeting. If the number of members of the Board of Directors falls below three, an Extraordinary General Meeting must be held within a reasonable period of time to conduct election of replacement members. A member elected as replacement completes the term of office of their predecessor. The date of first election is in accordance with the guidelines in the section Members of the Board of Directors. The Board of Directors constitutes itself, elects a Chairman and Vice Chairman from among its members and designates a Secretary, who need not be a member of the Board of Directors.

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 Annual General Meeting by law or under the Articles of Association.

Main duties

The Board of Directors is responsible for the overall management, and supervision and control of Executive Management. The Board assumes responsibility for all duties allocated in accordance with law, Articles of Association or internal regulations, in as far as these have not been assigned to any other bodies. In addition to duties listed in the Articles of Association, the Board of Directors is responsible for the following irrevocable and non-transferable obligations and duties:

– Determining and periodically reviewing mid- and long-term corporate strategy and provision of resources required to achieve corporate goals.

– Harmonising strategy, risks and financing.
– Determining the organisation.
– Determining guidelines governing personnel and compensation policy (see also Compensation Report, page 46 ff.).
– Structuring accounting, financial controls and financial planning, together with approval of the annual budget.
– Nominating members of the Audit and Compensation Committees from among their number.
– Nominating and dismissing persons entrusted with executive management.
– Supervising persons entrusted with executive management, in particular with regard to compliance with law, Articles of Association, regulations and directives.
– Responsibility for the content of Annual Reports, preparation for Annual General Meetings and implementation of resolutions.
– Drafting motions to be submitted to the Annual General Meeting in connection with compensation for the Board of Directors and Executive Management as well as in connection with drafting of the Compensation Report.
– Examining and approving reports from internal and external audit, as well as special regulatory reports.

Other exclusive duties of the Board of Directors

– Regular exchange of information relating to business and any special events; in particular, profitability, financial situation, liquidity, equity capital requirements and risk status.
– Determining risk policy and risk control systems as well as monitoring consolidated risk management (see also Risk Management and Status Report, page 16 ff., or 62 ff.).
– Drafting guidelines or regulations governing risk management and responsibility and procedures for authorising business which carries risk.
– Taking decisions regarding acquisition or divestment of participations in other companies and the foundation or liquidation of subsidiaries.
– Taking decisions regarding setting up and closing of companies, branch offices and representative offices.
– Determining credit approval powers and taking decisions regarding major engagements (incl. cluster risks) and loans to management/supervisory bodies.
– Determining Group, overall position limits.
– Ensuring timely measures are taken and informing the authorities.
– Appointing the Head of Internal Audit of the Group.
– Taking decisions regarding approval for employees' assumption of supplementary employment.

With the exception of non-transferrable 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. The Audit Committee was created in 2011 and the Compensation Committee in 2014. Since 2015, Christoph N. Meister has been audit representative and Chairman of the Compensation Committee (see also Audit Committee, page 22).

The Board of Directors is convened by the Chairman, or, if he 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 tied vote, 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 by the Chairman.

Information and control instruments

A range of information and control instruments are available to the Board of Directors and its committees as support in the overall fulfilment of its management and supervisory duties towards Executive Management. Such instruments include the strategy process, medium-term plan, annual planning process and internal and external financial reporting.

The members of the Board of Directors receive a reporting package on a quarterly basis, in particular management and controlling reports, liquidity as well as 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, or Compensation Committee, are discussed by the Committee and forwarded to the Board of Directors with a request for approval. The latest reports are discussed in depth at each meeting of the Board of Directors. The Chairman of the Board of Directors and the audit representative also receive minutes of the meetings of the Executive Management and regularly exchange information with the Group CEO, Group Chief Financial Officer and Chief Risk Officer and the other members of Executive Management. These meetings are also attended by the Group CEO and Group CFO/CRO as well as other individuals, where required.

In 2016, seven ordinary and five extraordinary meetings of the Board of Directors took place.

AUDIT COMMITTEE / AUDIT REPRESENTATIVE

The Audit Committee was dissolved at the end of 2015, since the number on the Board of Directors decreased from five to three members of the Board of Directors. Since then, Christoph N. Meister, previously Chairman of the Audit Committee, has been audit representative for Valartis Group audit matters. By virtue of his professional background, he has many years of experience in finance, accounting, risk management and internal control systems.

Duties
As audit representative, Christoph N. Meister prepares the basis for decision making, supports the Board of Directors in an advisory capacity and supports the Board in the fulfilment of the duties allocated to it by law, Articles of Association and regulations, in particular 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 of Valartis Group and the Group as a whole.

The duties of the audit representative are listed in the corresponding regulations.

COMPENSATION COMMITTEE

The Compensation Committee was created in 2014 and consists of at least three members of the Board of Directors, each of whom is elected individually at the Annual General Meeting for a term of one year, i. e., up to and including the first Ordinary Annual General Meeting following their election. Re-election is permissible. If one or more members withdraw, or if the Compensation Committee is not complete, the Board of Directors designates replacements from among its members for the period to the end of the next Annual General Meeting. Due to the early withdrawal of two members of the Compensation Committee in 2015, the Extraordinary General Meeting of 15 January 2016 elected Gustav Stenbolt, Christoph N. Meister and Stephan Häberle as members of the Compensation Committee. At the Extraordinary General Meeting of 28 June 2016, Christoph N. Meister and Gustav Stenbolt were reaffirmed as members and Philipp LeibundGut was newly elected to the Compensation Committee.

The Compensation Committee constitutes itself and designates a member as Chairman. The Compensation Committee meets as often as business requires, but at least three times per year. In 2016, as an exception, only two meetings were held.

Duties
The Compensation Committee performs its duties and competencies as a joint and collective body. Members have no personal powers and cannot, therefore, issue any instructions. The Compensation Committee may propose motions to the Board of Directors in connection with all issues concerning compensation.

The Compensation Committee supports the Board of Directors in its duties and responsibilities in the field of personnel policy. These include, but are not limited to:
- Preparing, drafting and periodic reviewing of compensation policy and performance goals for management positions.
- Periodic reviewing and implementing of compensation policy.
- Annual review of compensation for the individual members of Executive Management.
- Annual assessment of the members of Executive Management.
- Planning successors and their nomination for positions in Executive Management.
- Preparing choices of candidates for election or re-election to the Board of Directors.

Compensation for the Board of Directors and Executive Management
The Compensation Committee determines the respective total amount of compensation for the Board of Directors and Executive Management (incl. Group CEO), to be submitted by the Board of Directors to the Annual General Meeting for approval (for details, see Compensation Report, page 32 ff.).

Compensation Report
The Compensation Committee compiles the Compensation Report and submits it to the Board of Directors for approval.

Insurance and employee benefits
The Compensation Committee periodically evaluates appropriate insurance coverage for the members of the Board of Directors and Executive Management, with the assistance of specialists, and, where necessary, recommends adjustments to the Board of Directors. The Compensation Committee requests information on employee benefits for all employees from Executive Management at least every three years.

The duties of the Compensation Committee are defined in detail in a separate regulation and published on the website (www.valartisgroup.ch under Corporate Governance).

GROUP INTERNAL AUDIT

Group Internal Audit provides support to the Valartis Group Board of Directors in its performance of supervision and control function. The purpose, authority and responsibility of Internal Audit were defined in a separate policy, and the internal auditors worked in accordance with local versions of the international standards of the Institute of Internal Auditors (IIA). Acting independently, Internal Audit was responsible for auditing in particular the internal steering and control system, governance and risk management. Group Internal Audit was responsible for ensuring that all risk-relevant business activities were covered by a multi-year plan and defined a risk-based annual audit programme. The Chairman of the Board of Directors also used to assign special tasks in addition to the standard auditing work to Group Internal Audit. The efficiency of Group Internal Audit was enhanced by coordinating its activities with those of the external auditor.

As a result of the change in business model and the resulting divestment of several operational Group companies in the private banking field, Valartis Group AG in its current form as a non-banking regulated holding company no longer requires an Internal Audit function. For that reason, we intend to close Group Internal Audit during the course of 2017 and to distribute those internal audit responsibilities which remain necessary internally.

COMPLIANCE

Since the reorganisation of Valartis Group in 2015, compliance issues have been assigned to external service providers. The compliance officers of the individual Group companies assure regular reporting to Executive Management and the Board of Directors of Valartis Group.

The main responsibilities of the compliance function are:

- Identification and evaluation of compliance risks (risk of violation of provisions, regulations and standards with the corresponding, potential legal and regulatory sanctions, financial losses or damage to reputation) within the Group.
- Organisation and coordination of (de)centralised compliance controls within the Group.
- Control and supervision of all measures to minimise compliance risks within the Group.
- Advisory support for the Board of Directors, Executive Management and employees in all compliance issues.
- The Board of Directors may issue regulations governing the compliance function as well as instructions for compliance reporting.

EXECUTIVE MANAGEMENT [1]

Members of Executive Management

Name	Function	Nationality	Initial election
Gustav Stenbolt	Delegate of the Board of Directors	Norwegian	2017
George M. Isliker	Group Chief Financial and Chief Risk Officer	Swiss	2011

1 Due to the current strategic business model as a holding company, Stephan Häberle has decided to step down as Group CEO and to the leave Valartis Group as of 28 February 2017. He has been Group CEO since 2015. See also Media Release of 31 January 2017: Group CEO Stephan Häberle to leave Valartis Group, www.valartisgroup.ch/en/News-Media/News-Media-Releases/

Executive Management 2016

During the course of implementation of the reorganisation of Valartis Group in 2015, Executive Management was reduced to two members. In 2016, its members were Stephan Häberle, Group CEO, and George M. Isliker, Group CFO & CRO. From his election as member of the Board of Directors at the Valartis Group AG Extraordinary General Meeting on 15 January 2016 up to the 2016 Annual General Meeting, Stephan Häberle performed the dual function of Group CEO and member of the Board of Directors.

Organisation of Executive Management

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 regulations. The Group CEO heads Executive Management, which decides on business development. Specifically, 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 Executive Management meet at least once a month. Further meetings on strategy, corporate development, annual planning, budgeting and other topical issues also take place.

Further activities and vested interests

Additional activities and interests of the individual members of the Executive Management are listed in the corresponding short curriculum vitae.

Management contracts

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

Gustav Stenbolt, born 1957

Lic. rer. pol University of Fribourg. Since 1 March 2017 Delegate to the Board of Directors and Chairman of the Board of Directors since 2015. From 2007 to 2015 Gustav Stenbolt was CEO of Valartis Group AG. Chairman of the Board of Directors of Valartis Advisory Services SA since 2014 and since 2009 Chairman of the Foundation Board of the Pension Fund of Valartis Group. He was Chairman of the Executive Board of Jelmoli Holding from 2004 to 2007. In 1996, he founded MCT Group in Geneva and was CEO to 2004. 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 and CIS. Gustav Stenbolt is member of the Board of ENR Russia Invest SA (Chairman), Eastern Property Holdings Ltd, Norinvest Holding SA, and the Anglo Chinese Group Ltd, 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 and Valartis Advisory Services SA since 2014, and since 2015 member of the Foundation Board of the Valartis Group AG pension fund. From 2004 to 2010, he was Head of Group Finance & Risk at VP Bank Group, Vaduz, Liechtenstein. He took a sabbatical in 2003. From 1995 to 2002, George M. Isliker was Head of Finance and of the Credit Department at the Hottinger & Cie, Banquiers private banking group, Zurich, and an auditor with KPMG, Zurich, from 1992 to 1995.

COMPENSATION, HOLDINGS AND LOANS

Information on Valartis Group's compensation system, together with compensation for members of the Board of Directors and Executive Management for financial year 2016 can be found in the separate Compensation Report (see page 30 ff.) and in Note 39 of the Notes on the Consolidated Financial Statements. Details of the holdings of the Board of Directors and Executive Management and loans made to members are disclosed on pages 3554 ff. and Note 39.

SHAREHOLDERS' PARTICIPATION RIGHTS

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 Annual General Meeting of Valartis Group AG. A shareholder may exercise his or her voting right in person at the Annual General Meeting, appoint a third-party representative, or request the independent shareholder proxy or official custody account representative to vote on their behalf. Power of proxy may only be issued for one General Meeting.

Quorums prescribed by the Articles of Association

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

Convening of the Annual General Meeting

There are no provisions in the Articles of Association that deviate from the statutory provisions governing the convening of the Annual General Meeting. The AGM 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 General 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 Annual General 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 Annual General 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
Exit compensation for members of the Board of Directors and employees is explicitly excluded by regulations.

AUDITORS

The external audit mandate is performed by Ernst & Young AG, Zurich, Switzerland. The external auditors are appointed at the Ordinary Annual General 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 Stefan Marc Schmid, who has exercised this function since financial year 2015.

Auditor's fee
Ernst & Young AG charged Valartis Group CHF 0.7 m (previous year: CHF 1.5 m) in financial year 2016, for services in connection with the regulatory audits and interim audits as well as 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 charged Valartis Group CHF 0.1 m (previous year: CHF 0.1 m) for other services in the fields of legal issues, taxes, projects and IT.

Supervisory and control instruments relating to 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 Representative.

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 Swiss stock exchange, SIX Swiss Exchange, Valartis Group is subject, in particular, to the duty of immediate disclosure of share price-relevant events (SIX Exchange Regulation Ad hoc Publicity RLAhP). In 2015 and 2016, the company issued 31 ad-hoc publications as a result of the restructuring process.

In addition to ad-hoc publications and issuing of annual and half-year reports, which are prepared according to International Financial Reporting Standards (IFRS), regular reporting includes media releases on the latest developments, the annual press and analysts' conference (usually in April) and the Annual General Meeting, usually in May. In addition to the dispatch of media releases and reports electronically, Annual Reports are available to all interested parties online under www.valartisgroup.ch. Once again, this year the Annual Report is only available online and as pdf under www.valartisgroup.ch, Investor Relations.

Some of the Corporate Governance Regulation documents are also available on the website under Corporate Governance (see page 17).

Agenda 2017

Results media and analysts' conference	11 April 2017
General Meeting 2016	16 May 2017
Half-year results	29 August 2017

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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

COMPENSATION REPORT

Dear Shareholders,

We are pleased to present the 2016 Compensation Report for Valartis Group. This report informs you on the one hand about Valartis Group's compensation policy and compensation system and on the other hand, it shows how performance components are linked to actual compensation. The report comprises the following sections:

– Compensation Committee: Organisation, duties and areas of responsibility
– Compensation guidelines for the Board of Directors, Executive Management and employees
– Determining compensation
– Compensation for the Board of Directors
– Compensation for Executive Management
– Compensation for employees
– Overview: loans, shares and options held by members of the Board of Directors and Executive Management as at end of 2016

The 2016 Compensation Report fulfils current corporate governance requirements and is based on the stipulations of the Swiss Code of Best Practice for Corporate Governance issued by economiesuisse, the SIX Swiss Exchange Corporate Governance guideline, Art. 663 b^{bis} of the Transparency Law in accordance with the Swiss Code of Obligations and the Swiss constitutional article Art. 95, paragraph 3 in accordance with the Ordinance against excessive compensation in listed companies (VegüV).

On 28 June 2016, in a consultative vote, the General Meeting endorsed the 2015 Compensation Report with a large majority.

Value-driven Compensation System

Valartis Group's compensation system is an instrument to harmonise the interests of shareholders and employees. Our aim is to offer incentives to achieve corporate goals, market-driven and competitive compensation and, at the same time, to protect the interests of shareholders. Valartis Group is committed to a fair, balanced and performance-oriented compensation system. In addition to progressive social benefits, we offer employees throughout the group attractive basic salaries which are in line with the market and they can participate in a medium-term bonus system based on individual performance and the success of the company.

Valartis Group's value-driven compensation system is aimed at achieving the mid-term economic success and sustainable competitiveness of the Group (see also the information on Corporate Sustainability on page 11). It aligns the interests of shareholders and employees by offering incentives that promote a performance, team and risk-conscious culture, as well as corporate thinking and action which strengthens the group as a whole. For example, over and above a certain amount, members of management receive a portion of their variable performance component exclusively in Valartis Group AG shares (distributed over a period of up to three years).

As a result of the divestment of the Valartis Group private banks during the last three years, the change to the current business model of a holding company and the resulting downsizing, the Compensation Committee decided at its last 2016 meeting on 20 December 2016, to replace the existing bonus programme with a new employee participation programme which is still in the design stage.

On behalf of the Board of Directors

Christoph N. Meister

COMPENSATION COMMITTEE: ORGANISATION, DUTIES AND AREAS OF RESPONSIBILITY

Organisation of the Compensation Committee and its duties are defined in accordance with Art. 24 of the Articles of Association of 2 June 2015 and Art. 3.10 (a) of the Organisation Regulations for the Board of Directors of Valartis Group AG as follows:

Organisation
The Compensation Committee consists of at least three members of the Board of Directors, each of whom is elected individually at the Annual General Meeting for a term of one year, i. e., up to and including the first Ordinary General Meeting following their election. Re-election is admissible. If one or more members withdraw, or if the Compensation Committee is not complete, the Board of Directors designates replacements from amongst its members for the period up to completion of the next Annual General Meeting.

On 28 June 2016, the General Meeting elected Christoph N. Meister, Gustav Stenbolt and Philipp LeibundGut as members of the Compensation Committee, each for a term up to the conclusion of the next Ordinary General Meeting.

The Compensation Committee constitutes itself and designates a member as Chairman, whereby the Chairman of the Board of Directors may not be Chairman of the Compensation Committee. The Compensation Committee meets as often as business requires, but at least three times per year. In 2016, as an exception only, two meetings took place (see also chapter Corporate Governance, page 22). The Compensation Committee performs its duties and competencies as a joint and collective body. Members have no personal powers and cannot, therefore, issue any instructions. In principle, Compensation Committee is quorate when the majority of its members are present. It passes resolutions by means of an absolute majority vote of members present. In the event of a tied vote, the Chairman has the casting vote. The minutes of meetings are submitted to the Board of Directors.

Duties and Responsibilities
The Compensation Committee may propose motions to the Board of Directors in connection with all issues concerning compensation and supports the Board's work in the field of personnel policy. The Committee's duties include, amongst others, the following:

- Determine the compensation policy and system of the Board of Directors, Executive Management, and employees.
- Preparing, drafting and periodic reviewing of compensation policy and performance goals for Executive Management.
- Periodic reviewing of implementation of compensation policy.
- Annual assessment of the members of Executive Management.
- Planning successors and their nomination for positions in Executive Management.
- Annual review of compensation for the individual members of Executive Management.
- Preparing choices of candidates for election or re-election to the Board of Directors and submitting the corresponding proposals to the Board of Directors.
- Compiling the Compensation Report and submitting it to the Board of Directors for approval.
- Periodic evaluation of appropriate insurance coverage for the Board of Directors and Executive Management, with the assistance of specialists, and recommendation of adjustments to the Board of Directors.

COMPENSATION GUIDELINES FOR THE BOARD OF DIRECTORS, EXECUTIVE MANAGEMENT AND EMPLOYEES

Valartis Group's value-driven compensation system is aimed at winning the right employees, promoting them and binding them to the company, in order to assure the long-term economic success and sustainable competitiveness of the Group. It is based on the following principles:

- Compensation should be comparable with other companies in the financial services sector.
- The compensation system offers incentives which promote a performance, team and risk-conscious culture, as well as corporate thinking and action which strengthen Valartis Group as a whole.
- Total compensation consists, as a rule, of a fixed and a variable component.
- Variable compensation components are dependent to a suitable degree on individual performance, the annual result of the respective business segment and the success of the Group as a whole.
- Evaluation of the variable compensation components is based on directly measurable, as well as non-measurable criteria.
- A significant portion of the variable compensation may be paid in Valartis Group AG shares.
- Payment of a significant portion of variable compensation is made dependent on the future success of Valartis Group. Appropriate consideration is given to risks which have been taken.
- Severance payments for Board of Directors and Executive Management members are not permitted.

Compensation Board of Directors
In order to guarantee the independence of the Board of Directors, their compensation comprises exclusively of fixed payments which are independent of corporate success. The level of compensation is based on the office held by the member of the Board of Directors and their respective contribution (for details see page 30).

Compensation Executive Management
Compensation for members of the Executive Management comprises a fixed base salary and – as appropriate – a performance-related payment (for details, see page 32).

- The base salary is based on the respective duties and functional responsibility.
- The performance-related payment – if approved by the Board of Directors – is determined based on the group operating earnings, business segment operating profit, the segment operating profit and their personal, individual contribution.
- The performance-related components are included in the annual goal-setting process in which both the individual and financial performance goals are determined. At the end of the period, an assessment is made of the degree to which goals have been achieved.
- In determining quantitative goals of the Executive Members, appropriate consideration must be given to the interests of shareholders (equity capital interest, impact of market movements on the result, etc.).
- Individual contributions include measurable factors such as improved results, project completion, etc., but also non-financial factors (meeting the compliance and the risk-related policy guidelines, personnel management as well as commitment to the Group as a whole).

Bonus Shares Programme

Valartis Group's Bonus Shares Programme is an integral part of the compensation system which takes into consideration the overall success of the company and individual performances, as well as the aim to bind employees in the long term and protection of shareholders' interests (see details on page 33).

DETERMINING COMPENSATION

The Compensation Committee determines the respective total amount of compensation for the Board of Directors and Executive Management (incl. Group CEO). This is then submitted by the Board of Directors to the Annual General Meeting for approval. This comprises the following two steps:

- The Compensation Committee determines compensation for the individual members of the Board of Directors within the framework of the authorised (or still to be authorised) maximum total amount and presents the corresponding proposals to the Board of Directors (see also graph below "Competencies and areas of responsibility").
- The Compensation Committee determines compensation for the Group CEO and, following consultation with the Group CEO, for the individual members of the Executive Management within the framework of the authorised (or still to be authorised) maximum total amount and presents the corresponding proposals to the Board of Directors (see also graph "Competencies and areas of responsibility" below).

Board of Directors and Executive Management

The Board of Directors of Valartis Group AG determines compensation for members of the Board of Directors and (following consultation with the Group CEO) for members of the Executive Management, subject to approval by the Annual General Meeting and in accordance with company organisational regulations.

Employees

The Group CEO proposes the amount of bonus for each respective business segment, based on the total bonus amount determined by the Board of Directors to the Compensation Committee. The Compensation Committee examines each corresponding application. The responsible manager for each segment determines the bonus payments to employees working in that segment in agreement with the Group CEO. Bonus payments to those employees who are not allocated directly to an operational business segment are determined by the Group CEO.

Consultative vote on compensation for members of the Board of Directors and Executive Management

The Board of Directors proposed a non-binding consultative vote on compensation for members of the Board of Directors and Executive Management to the ordinary Annual General Meeting in

Competencies and areas of responsibility

Ruling	Group CEO	Compensation Committee	BoD	General Assembly
Compensation for members of BoD[1], Chairman of BoD and Group CEO		Proposal	Approval	
Fixed compensation for members of Executive Management (excl. Group CEO)	Proposal	Review	Approval	
Bonus Shares Programme[2] Group CEO		Proposal	Approval	
Bonus Shares Programme members of Executive Management (excl. Group CEO)	Proposal	Review Proposal	Approval	
Bonus Shares Programme other entitled persons	Proposal	Review Proposal	Approval	
Total compensation of the Executive Management and Board of Directors			Proposal	Approval

1 Board of Directors.
2 Cash and Bonus Share Programme of Valartis Group: cash, bonus shares and super bonus shares (for details, see page 33 f).

2016, in accordance with the provisions of the Swiss Code of Best Practice for Corporate Governance. The majority of shareholders endorsed the 2015 Compensation Report. Valartis Group proactively seeks dialogue with shareholders and shareholder representatives, in order to collect valuable feedback on compensation policy. This is then appropriately taken into consideration in the regular reviews.

COMPENSATION: BOARD OF DIRECTORS

The members of the Board of Directors receive fixed compensation, the level of which is determined according to their individual function within the Group. There are no variable compensation components for members of the Board of Directors. The Compensation Committee determines compensation for the members and the Chairman of the Board of Directors within the framework of the authorised (or still to be authorised) maximum total amount and presents the corresponding proposals to the Board of Directors (see also graph "Competencies and areas of responsibility", page 29). Since 2013, fees for members of the Board of Directors are determined for the period between two Ordinary General Meetings.

The compensation for members of the Board of Directors must always be paid in monetary form. However, every member of the Board of Directors may request compensation, in part, or in full, in the form of shares. Note 39 discloses details of loans, shares and options held by members of the Board of Directors (see also Compensation Report, page 35 f.).

Comparison of 2016 and 2015 compensation to the Board of Directors

2016 in CHF	Gustav Stenbolt, Chairman[1]	Christoph N. Meister, Vice-Chairman[2]	Philipp LeibundGut[1]	Stephan Häberle, Member[2]	Rolf Müller-Senn	Total
Compensation for the Board of Directors						
Compensation from group entities (base)	296,800	190,000	36,600	33,000	7,800	563,200
of which in shares	–	–	–	–	–	–
Additional compensation for 2016[3]	100,000	–	–	–	–	100,000
Social security contributions[4]	44,100	21,200	4,100	3,700	1,000	74,100
Other social insurance contributions[4]	17,300	6,200	1,300	400	300	25,500
Compensation for additional services	–		–	–	–	–
Other benefits	–	–	–	–	–	–
	458,200	**217,400**	**41,000**	**37,100**	**9,100**	**762,800**

1 Member since the AGM of 28 June 2016.
2 Member since the EGM of 15 January 2016 until the AGM of 28 June 2016.
3 As per decision of the Compensation Committee of 20 December 2016.
4 In addition to employer contributions, Valartis Group also pays employee contributions. Social security contributions also include OASI contributions.

2015 in CHF	Gustav Stenbolt, Chairman[1]	Christoph N. Meister, Vice-Chairman[2]	Rolf Müller-Senn[3]	Jean-François Ducrest, Member[4]	Urs Maurer-Lambrou, Chairman[5]	Stephan Häberle, Member[6]	Total
Compensation for the Board of Directors							
Compensation from group entities (base)	173,000	251,600	193,100	92,600	249,300	16,900	976,500
of which in shares	–	–	–	–	–	–	–
Social security contributions[7]	19,500	28,100	21,5000	10,400	27,800	1,900	109,200
Other social insurance contributions[7]	10,100	7,100	5,800	4,600	6,500	200	34,300
Compensation for additional services	–		–	174,444	83,430		257,874
Other benefits	–	–	–	–	–	–	–
	202,600	**286,800**	**220,400**	**282,044**	**367,030**	**19,000**	**1,377,874**

1 Compensation paid as Group CEO is listed from the date of election to the Board of Directors: 2 June 2015 (see Executive Management, page 51).
2 Vice Chairman since 26 November 2015; withdrawal from the Board of Directors of Valartis Bank (Liechtenstein) AG on 3 December 2015 and from Supervisory Board of Valartis Bank (Austria) AG on 10 January 2016.
3 Withdrawal from the Board of Directors at the General Meeting on 2 June 2015 (Vice-President), from the Supervisory Board of Valartis Bank (Austria) AG and the Board of Directors of Valartis Bank (Liechtenstein) AG on 9 September 2015 and 2 December 2015.
4 Withdrawal from the Board of Directors of Valartis Group AG on 2 November 2015.
5 Up to the General Meeting of 2 June 2015, Chairman of the Board of Directors; withdrawal from Board of Directors of Valartis Group AG on 15 June 2015 and from Valartis Finance Holding AG (Liechtenstein), Valartis Bank (Liechtenstein) AG and the Supervisory Board of Valartis Bank (Austria) AG on 21 August 2015.
6 Member of the Board of Directors of Valartis Group AG since the General Meeting of 23 May 2014 to the General Meeting of 2 June 2015. Re-elected as member at the Extraordinary General Meeting of 15 January 2016.
7 In addition to employer contributions, Valartis Group also pays employee contributions. Social security contributions also include OASI contributions.

COMPENSATION: EXECUTIVE MANAGEMENT

Compensation policy for Executive Management is specified by the Board of Directors based on Art. 3.9 (b) of the Organisational Regulations of the company. Specifications contained therein comply with Swiss Stock Exchange, SIX Swiss Exchange, guidelines relating to information on corporate governance (RLCG). On the recommendation of the Compensation Committee, the Board of Directors of Valartis Group AG authorises compensation for the Group CEO and, following consultation with the Group CEO, compensation for the remaining members of Executive Management within the framework of the maximum total amount authorised (or still to be authorised) by the Annual General Meeting.

Structure of the compensation system for Executive Management

The structure of the compensation system for Executive Management is based on corporate success and individual performance components which are listed in «Determining compensation» on page 29.

Compensation is determined based on the following points:

- Compensation for members of Executive Management comprises a fixed basic salary and – as appropriate – a performance-related component.
- Base salary is based on the duties and functional responsibilities of individual members.
- Performance-related compensation is determined on the basis of the following quantitative and qualitative components:
  - Group operating profit
  - Business segment operating profit
  - Individual contribution

2016 and 2015 comparison of compensation to members of Executive Management*

2016 in CHF	Stephan Häberle Group CEO	George M. Isliker Group CFO/CRO	Total
Compensation for the GEM			
Basic remuneration in cash	400,000	350,000	750,000
Variable remuneration in cash	100,000	100,000	100,000
Variable remuneration in shares (entitlement from ongoing share plans)[1]	–	–	–
Employer's social security and pension fund contributions[2]	92,201	80,957	173,158
Other social security contributions	14,213	12,822	27,035
Other benefits	–	–	–
Total	**606,414**	**543,779**	**1,150,193**

* The highest compensation of a member of Executive Management is shown; due to the CEO change in 2015, this would be the Group CFO/CRO.
1 Evaluated at the date of granting of entitlement.
2 The contributions also include the employer's portion for social security and pension fund contributions.

2015 in CHF	George M. Isliker, Group CFO/CRO[1]	Other members of the Executive Management (GEM)[2]	Total
Compensation for the GEM			
Basic remuneration in cash	350,000	618,100	968,100
Variable remuneration in cash	–	–	–
Variable remuneration in shares (entitlement from ongoing share plans)[3]	–	–	–
Employer's social security and pension fund contributions[4]	71,900	112,800	184,700
Other social security contributions	10,300	22,900	33,200
Other benefits	–	20,200	20,200
Total	**432,200**	**774,000**	**1,206,200**

1 As Group CFO/CRO, George M. Isliker is a member of Executive Management since 2011.
2 Gustav Stenbolt (Group CEO) and Vincenzo Di Pierri were members of Executive Management up to the General Meeting of 2 June, 2015. Stephan Häberle is Group CEO since 3 June 2015.
3 Evaluated at the date of granting of entitlement.
4 Social security contributions include employer OASI and pension fund contributions.

Weighting
The following percentages apply as gauges for the weighting of individual components, whereby the individual components always total 100 per cent:

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

In determining individual components, appropriate consideration is given to the interests of shareholders (interest on equity capital, impact of market movements on results, etc.). Individual contributions include quantifiable factors such as improved results, timely and on-budget completion of projects, etc., but also qualitative factors such as meeting the compliance and risk-related policy guidelines, personnel management as well as commitment to the Group as a whole (this list is not conclusive).

In order to focus the mind-set and actions of the members of the Executive Management on sustainably strengthening Valartis Group's earning power, performance-related compensation in excess of CHF 50,000 is paid in accordance with the following conditions (see also graph on page 34):

If performance-related compensation does not exceed CHF 50,000 per year, the entitled person is free either to have it paid out in full, in cash, or to participate in the Valartis Group AG Bonus Shares Programme (in accordance with compensation policy).

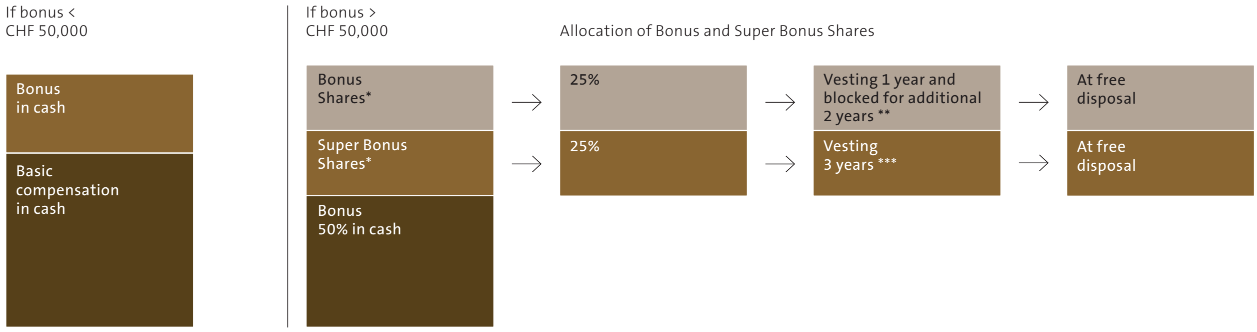
If performance-related compensation for the year exceeds the sum of CHF 50,000, then the entitled person will participate in the Valartis Group AG Bonus Shares Programme in accordance with the following conditions:

– 50 per cent of performance-related compensation is paid in cash, 25 per cent is allocated in the form of Bonus Shares and 25 per cent is allocated in the form of Super Bonus Shares, whereby the terms Bonus Shares and Super Bonus Shares, refer to Valartis Group AG shares.
– The number of Bonus Shares and Super Bonus Shares at the time of allocation will be determined based on the total amount of bonus in Swiss Francs (50 per cent of performance-related compensation) divided by the unweighted, average daily closing prices for the company's share for the month of March.
– Payment of the cash component is completely unconditional and takes place in accordance with Valartis Group's compensation policy.
– Bonus Shares: Ownership of Bonus Shares (25 per cent of the total performance-related compensation) vests to the eligible person 12 months after allocation (vesting period of 1 year). These are blocked for a period of 2 years. Ownership of shares will only vest to the eligible person if notice has not been given on their employment contract with the company, or a subsidiary controlled by the company, or if they have left the Group as a good leaver (the award agreement governs conditions and the definition of good leaver).
– Super Bonus Shares: Ownership of Super Bonus Shares (25 per cent of the total performance-related compensation) vests to the eligible person 3 years after allocation (vesting period of 3 years). The effective number of shares to be transferred at this time is dependent on the success/risk profile of the company over a 3-year horizon (arithmetic average RoE and total capital ratio).
– Cash performance-related compensation components are paid out after conclusion of the evaluation process (determination of performance-related compensation), but no later than the end of April of the following financial year.
– Depending on the performance of Valartis Group during this vesting period, the share portion of the bonus (number of shares initially allocated) may double at most (given a total bonus of CHF 50,000, this would amount to a maximum of CHF 50,000 in the form of shares). The basis for performance measurement, which begins at the start of a financial year, is the average return on equity achieved over the two subsequent years and the average total capital ratio measured over the same period. Financial details on the participation programmes can be found in Note 11 of the Annual Report.

Dependence on business performance and individual personal contributions may result in considerable variations from year to year in the total compensation for a member of Executive Management. The proportion of fixed and variable compensation components fluctuate accordingly.

Details on loans, shares and options can be found in Note 39 of the Notes to the Consolidated Financial Statements, or on pages 35 ff. of this Compensation Report.

Compensation system for employees: Valartis Group Bonus Share Programme



* Variable compensation components which are dependent on individual performance, result of the respective business segment and success of Valartis Group AG
** Current employees, or good leavers
*** Current employees, or good leavers; numbers of shares are dependent on performance target (RoE and BIS Tier 1 ratio) with floor 100 per cent and cap 200 per cent of allocated shares

COMPENSATION: EMPLOYEES

The compensation model as described for Executive Management also applies in principle for all employees in Switzerland. The Group CEO determines the total amount of bonus payment for each business segment, based on the total bonus amount made available by the Board of Directors, and presents the corresponding proposal to the Compensation Committee for review (see also page 29 ff.). The responsible manager for each segment determines the bonus payments to employees working in that segment in agreement with the Group CEO. Bonus payments to those employees who are not allocated directly to an operating business segment are determined by the Group CEO.

Further information on salaries, bonuses, social security payments, pension provisions and employee participations can be found in Notes 5, 11 and 12 of Notes to the Consolidated Financial Statements.

OVERVIEW: LOANS, SHARES AND OPTIONS HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT AS AT END-2016

The tables below list all loans, shares and options held by the Board of Directors and Executive Management as at 31 December 2015:

Loans, shares and options held by members of the Board of Directors 2016 and 2015

2016 in CHF	Gustav Stenbolt, Chairman[1]	Christoph N. Meister, Vice-Chairman	Stephan Häberle, Member[2]	Total
Number of shares held and loans/advances for the Board of Directors				
Numbers of shares	1,862,733	4,821	395,565	2,263,119
Loans and advances directly in CHF[3]	4,179	–	1,194	5,373
Loans and advances to related parties	–	–	–	–

1 Gustav Stenbolt was Group CEO until the AGM of 2 June 2015.
2. Shares allocated to members of Executive Management as bonus components in this FY or in previous FYs, but which have not yet been vested, are listed as entitlements.

2015 in CHF	Gustav Stenbolt, Chairman[1]	Christoph N. Meister, Vice-Chairman	Stephan Häberle, Member[2]	Total
Number of shares held and loans/advances for the Board of Directors				
Numbers of shares	1,858,623	4,821	–	1,863,444
Loans and advances directly in CHF[3]	8,289	–	–	8,289
Loans and advances to related parties	–	–	–	–

1 Chairman since the Annual General Meeting of 2 June 2015.
2 Member since the Extraordinary General Meeting of 15 January 2016
3 Shares allocated to members of the Group Executive Board as bonus components in this FY or in previous FYs but which have not yet been vested are listed as entitlements.

Loans, shares and options held by members of Executive Management 2016 and 2015

2016 in CHF	Stephan Häberle, CEO	George M. Isliker, CFO/CRO	Total
Number of shares held and loans/advances for the Executive Management			
Numbers of shares	–	13,494	13,494
Numbers of shares entitled from ongoing share plans[1]	–	1,791	1,791
Loans and advances directly in CHF	–	–	–
Loans and advances to related parties	–	–	–

1 Shares allocated to members of the Group Executive Board as bonus components in this FYs, or in previous FYs but which have not yet been vested are listed as entitlements.

2015 in CHF	Stephan Häberle, CEO	George M. Isliker, CFO/CRO	Total
Number of shares held and loans/advances for the Executive Management			
Numbers of shares	–	9,971	9,971
Numbers of shares entitled from ongoing share plans[1]	–	5,314	5,314
Loans and advances directly in CHF	–	–	–
Loans and advances to related parties	–	–	–

1 Shares allocated to members of the Group Executive Board as bonus components in this FYs, or in previous FYs but which have not yet been vested are listed as entitlements.

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To the General Meeting of
Valartis Group AG, Baar

Zurich, 3 April 2017

Report of the statutory auditor on the remuneration report

We have audited the accompanying remuneration report of Valartis Group AG for the year ended 31 December 2016.The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 27 to 36 of the remuneration report.

Board of Directors’ responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor’s responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Valartis Group AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Stefan Marc Schmid
Licensed audit expert
(Auditor in charge)

Alain Münger
Licensed audit expert

VALARTIS GROUP CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

in CHF 1,000	Note	1.1.–31.12.2016	1.1.–31.12.2015 [1)]
Interest and discount income		1,754	1,385
Dividend income		160	93
Interest expense		-3,109	-3,711
Income from interest and dividends	1	**-1,195**	**-2,233**
Income from commission and service fees		5,083	3,534
Commission expense		0	-1
Income from commission and service fees	2	**5,083**	**3,533**
Income from trading	3	**4,656**	**-3,514**
Other ordinary income	4	**8,149**	**-14,975**
Total operating income		**16,693**	**-17,189**
Personnel expense	5	-8,966	-8,386
General expense	6	-10,787	-12,487
Administrative expense		**-19,753**	**-20,873**
Gross loss		**-3,060**	**-38,062**
Depreciation/amortisation of property, plant and equipment and intangible assets	7	-90	-1,040
Valuation adjustments, provisions and losses	8	-6,079	-12,754
Net loss from continued operations before taxes		**-9,229**	**-51,856**
Income taxes	9	-2,759	1,434
Net loss from continued operations		**-11,988**	**-50,422**
Net loss from discontinued operations after tax	37	-26,117	-7,988
Net loss		**-38,105**	**-58,410**
Net loss attributable to shareholders of Valartis Group AG		-43,250	-57,220
Net loss attributable to non-controlling interests		5,145	-1,190

in CHF			
Earnings per share			
Undiluted earnings attributable to shareholders of Valartis Group AG		-9.15	-12.18
Diluted earnings attributable to shareholders of Valartis Group AG		-9.15	-12.18
Earnings per share – continued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		-3.62	-10.48
Diluted earnings per share attributable to shareholders of Valartis Group AG		-3.62	-10.48
Earnings per share – discontinued operations			
Undiluted earnings attributable to shareholders of Valartis Group AG		-5.53	-1.70
Diluted earnings per share attributable to shareholders of Valartis Group AG		-5.53	-1.70

1) In 2016 associated company Darsi Group is disclosed as discontinued operations. Consolidated income statement 2015 and related notes have been adjusted accordingly.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in CHF 1,000	1.1.–31.12.2016	1.1.–31.12.2015
Net loss in the income statement	**-38,105**	**-58,410**
Unrealised (losses)/gains from financial assets available for sale 1)	-1,730	15
(Losses)/gains on financial assets available for sale transferred to income statement 1)	-157	0
Foreign exchange translation differences	-2,219	-8,321
Foreign exchange translation differences transferred to income statement	39,901	0
Other comprehensive income that will be reclassified to the income statement	**35,795**	**-8,306**
Remeasurement of defined benefit pension plans 2)	582	-3,751
Associated companies – attributable comprehensive income	0	0
Other comprehensive income that will not be reclassified to the income statement	**582**	**-3,751**
Total other comprehensive income, after tax	**36,377**	**-12,057**
Total comprehensive income	**-1,728**	**-70,467**
Allocation of total comprehensive income		
Shareholders of Valartis Group AG	-6,164	-69,770
Non-controlling interests	4,436	-697

1) The gains/losses on financial assets available for sale before tax amount to TCHF 1,868 and the income tax to TCHF -20. In the previous year, the loss on financial instruments available for sale before tax was TCHF -83 and the income tax TCHF 98.

2) The result of the remeasurement for defined benefit pension plans before tax is TCHF 582 and the tax effect TCHF 0 (previous year: pre-tax TCHF -3,482, tax effect TCHF -269).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Assets

in CHF 1,000	Note	31.12.2016	31.12.2015
Cash	13	1	4
Due from banks	14	24,639	23,484
Due from third parties	14	17,996	21,345
Trading portfolio assets	15	31,052	21,285
Financial assets available for sale	16	19,458	21,128
Other financial assets at fair value	17	462	2,063
Associated companies	18	17,054	37,125
Property, plant and equipment	19	292	317
Investment property	20	35,643	33,153
Accrued and deferred assets	21	2,787	2,318
Derivative financial instruments	22	204	0
Other assets	23	24,972	14,064
Goodwill and other intangible assets	24	2,292	1,837
Deferred tax assets	9	536	308
		177,388	**178,431**
Assets classified as held for sale	37	11,274	2,028,207
Total assets		**188,662**	**2,206,638**
Total subordinated assets		0	0
Total amounts due from holders of qualified participations		0	0

Liabilities

in CHF 1,000	Note	31.12.2016	31.12.2015
Liabilities			
Due to banks	26	32,004	30,946
Other short-term financial liabilities	26	7,155	29,503
Derivative financial instruments	22	1,838	3,740
Current income taxes	9	636	458
Accrued and deferred liabilities	27	5,331	8,566
Other liabilities	28	8,955	10,632
Provisions	29	731	1,679
Deferred tax liabilities	9	1,161	87
		57,811	**85,611**
Liabilities directly associated with assets classified as held for sale	37	0	1,961,419
Total liabilities		**57,811**	**2,047,030**
Shareholders' equity			
Share capital	30	5,000	5,000
Reserves		115,181	157,601
Foreign exchange translation differences		-6,042	-44,404
Unrealised income from financial assets available for sale		3,963	5,821
Treasury shares	31	-5,726	-6,130
Shareholders' equity of the shareholders of Valartis Group AG		**112,376**	**117,888**
Non-controlling interests		18,475	41,720
Total shareholders' equity (including non-controlling interests)		**130,851**	**159,608**
Total liabilities and shareholders' equity		**188,662**	**2,206,638**
Total subordinated liabilities		0	10,830
of which discontinued operations		0	10,830
Total amounts due to holders of qualified participations		0	0

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2015 in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings
Opening balance at 1 January 2015	**5,000**	**-7,701**	**-4,614**	**220,517**
Gains/losses from financial assets available for sale				0
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive income 1)	**0**	**0**	**0**	**0**
Net loss				-57,220
Comprehensive income	**0**	**0**	**0**	**-57,220**
Dividend payments				
Change in treasury shares		1,571	-403	
Employee participation plan			-182	
Transaction with non-controlling interests				115
Owner-related changes	**0**	**1,571**	**-585**	**115**
Total shareholders' equity at 31 December 2015	**5,000**	**-6,130**	**-5,199**	**163,412**

2016 in CHF 1,000	Share capital	Treasury shares	Capital reserves	Retained earnings
Opening balance at 1 January 2016	**5,000**	**-6,130**	**-5,199**	**163,412**
Gains/losses from financial assets available for sale				0
Foreign exchange translation differences				
Remeasurement of defined benefit pension plans				
Other comprehensive income 1)	**0**	**0**	**0**	**0**
Net loss				-43,250
Comprehensive income	**0**	**0**	**0**	**-43,250**
Dividend payments				
Change in treasury shares		404	-271	
Employee participation plan			-37	
Transaction with non-controlling interests				556
Owner-related changes	**0**	**404**	**-308**	**556**
Total shareholders' equity at 31 December 2016	**5,000**	**-5,726**	**-5,507**	**120,718**

1) The share of discontinued operations on other comprehensive income in equity is disclosed in Note 37.

Net unrealised gains/losses on financials available for sale	Foreign exchange translation difference	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
5,777	**-35,561**	**3,139**	**186,557**	**54,608**	**-516**	**54,092**	**240,649**
44			44	-29		-29	15
	-8,843		-8,843		522	522	-8,321
		-3,751	-3,751			0	-3,751
44	**-8,843**	**-3,751**	**-12,550**	**-29**	**522**	**493**	**-12,057**
			-57,220	-1,190		-1,190	-58,410
44	**-8,843**	**-3,751**	**-69,770**	**-1,219**	**522**	**-697**	**-70,467**
				-11,174		-11,174	-11,174
			1,168			0	1,168
			-182			0	-182
			115	-501		-501	-386
0	**0**	**0**	**1,101**	**-11,675**	**0**	**-11,675**	**-10,574**
5,821	**-44,404**	**-612**	**117,888**	**41,714**	**6**	**41,720**	**159,608**
5,821	**-44,404**	**-612**	**117,888**	**41,714**	**6**	**41,720**	**159,608**
-1,858			-1,858	-29		-29	-1,887
	38,362		38,362		-680	-680	37,682
		582	582			0	582
-1,858	**38,362**	**582**	**37,086**	**-29**	**-680**	**-709**	**36,377**
			-43,250	5,145		5,145	-38,105
-1,858	**38,362**	**582**	**-6,164**	**5,116**	**-680**	**4,436**	**-1,728**
						0	0
			133			0	133
			-37			0	-37
			556	-27,681		-27,681	-27,125
0	**0**	**0**	**652**	**-27,681**	**0**	**-27,681**	**-27,029**
3,963	**-6,042**	**-30**	**112,376**	**19,149**	**-674**	**18,475**	**130,851**

CONSOLIDATED CASH FLOW STATEMENT

in CHF 1,000	2016	2015
Net loss before taxes from continued operations	-9,229	-51,856
Net loss before taxes from discontinued operations	-30,730	-1,875
Net loss before taxes	**-39,959**	**-53,731**
Non-cash activities in the consolidated income statement		
Depreciation of property, plant and equipment	90	2,901
Gain from sale of property, plant and equipment	-4,347	0
Amortisation of intangible assets	0	1,331
Adjustments on fair value of investment properties	-987	15,653
Impairment of goodwill and intangible assets	0	21,298
Change in valuation adjustments and provisions	88	2,919
Income from associated companies	-2,967	9,517
Impairment of associated companies	12,025	0
Income from sale of participations	-18,585	-327
Loss from sale of banking business Austria	9,823	0
Transfer of foreign currency differences from equity to profit-and-loss statements	39,901	0
Income from financial instruments	1,437	5,465
Income from other assets	-250	259
Change in deferred taxes	6,924	2,317
Net (increase)/decrease in assets and liabilities of the banking business		
Accrued and deferred assets	-2,135	3,808
Accrued and deferred liabilities	-10,702	-3,664
Trading securities	-11,850	6,036
Amounts due to other short-term financial liabilities	-82,980	-510,067
Amounts due from third parties	36,573	62,079
Amounts due to banks	4,814	-20,566
Amounts due from banks	-539,836	708,389
Derivative financial instruments (assets)	551	406
Derivative financial instruments (liabilities)	-3,188	-263
Other financial assets at fair value including available for sale	208,338	-238,964
Other assets	-10,867	9,348
Other liabilities	-2,002	-3,795
Taxes paid	-4,716	-1,175
Cash flow from operating activities	**-414,807**	**19,174**
Purchase of property, plant and equipment	-49	-711
Sale of investment properties	233	0
Acquisition of associated companies	-2,189	-1
Decrease of financial assets held to maturity	160,668	-73,776
Sale of banking business Austria less corresponding cash and cash equivalents	-158,762	0
Sale of subsidiaries less attributable cash	-780,617	0
Cash flow from investment activities	**-780,716**	**-74,488**

1) In the case of divestment of the banking business in Austria and the holding in Valartis Bank (Liechtenstein) AG, please note that the attributable, divested liquid funds were used in the divested banking operations and not for other Group objectives. In the cash flow statement, there is no differentiation between continued and discontinued operations, in accordance with IFRS 5. Cash flows from discontinued operations are listed separately in Note 37.

in CHF 1,000	2016	2015
Dividend payments	0	0
Change in treasury shares	133	1,168
Change in non-controlling interests in equity	409	-11,294
Increase of capital	558	0
Cash flow from financing activities	**1,100**	**-10,126**
Effect of foreign exchange translation differences (including non-controlling interests)	-226	-13,772
Increase in cash and cash equivalents	**-1,194,649**	**-79,212**
Position at 1 January	1,219,176	1,298,388
Position at 31 December	24,527	1,219,176
Cash and cash equivalents comprise the following assets:		
Cash	1	909,932
Due from banks at sight / callable	24,526	309,244
Total cash and cash equivalents	**24,527**	**1,219,176**
Whereof cash and cash equivalents from continued operations	24,527	23,374
Cash	1	4
Cash equivalents	24,526	23,370
Whereof cash and cash equivalents from discontinued operations		1,195,802
Cash		909,928
Cash equivalents		285,874
Dividends received	61	113
Interest received	5,295	10,209
Interest paid	-3,058	-4,634

NOTES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DESCRIPTION OF BUSINESS

Valartis Group is an internationally active finance group whose parent company, Valartis Group AG, is domiciled in Baar, Canton of Zug, Switzerland, and is listed on the SIX Swiss Exchange. In its business segment Private Clients, the Group previously focused on asset management business as core competency. Since divestment of the private banks and banking holdings, the focus is on participations. Further business activities comprise the development, implementation, and management of innovative niche investment products and provision of specialised financial services. Geographically, Valartis Group operates in Switzerland and Eastern Europe.

The moratorium placed on Valartis Group AG on 24 July 2015 by the Cantonal Court of Zug as a result of the company's shortfall of liquidity was lifted on 17 November 2016 as a result of the successful recovery. The Princely Court of Liechtenstein in Vaduz granted the Liechtenstein-based subsidiary, Valartis Finance Holding AG, a deferment of bankruptcy in order for the company to overcome its own lack of liquidity, which was also lifted as a result of successful recovery, on 28 October 2016.

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. Up to 20 September 2016 one entity in Valartis Group, the subsidiary Valartis Finance Holding AG, Liechtenstein, was subject to consolidated banking supervision by the Financial Markets Authority, Liechtenstein (FMA). This consolidated supervision ended on 20 September 2016, following the divestment of the banking business in Austria and in Liechtenstein.

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

In 2016, Valartis Group applied the following new, or revised, standards and interpretations for the first time:

IAS 1 – Disclosure Initiative

The amendments to IAS 1 make clear that information is only to be disclosed in the notes to the financial statements if not immaterial. The amended IAS 1 also contains guidance on the aggregation and disaggregation of items in the balance sheet and statement of comprehensive income and explains how interests in other comprehensive income of companies recognised using the equity method are to be shown in the statement of comprehensive income. It also makes clear that understandability and comparability are to be considered when determining the order of the Notes.

Following divestment of its private banking business, Valartis Group has made the following revisions to the Annual Report 2016 in connection with the structure of its Annual Accounts and disclosures in the Notes on Consolidated Financial Statements.

The Profit and Loss position "Commission income from securities and investment business" has been shortened to "Income from commissions and service fees". The former balance sheet position "Due from clients" has been altered to "Due from third parties" and the former position "Due to clients" has been renamed to "Other short-term financial liabilities".

Following divestment of the private banking business, we are no longer including disclosures on credit risks – overview of collateral. The previous Note disclosing value adjustments for credit risk for due from banks and clients has been eliminated for the same reason. We are also making no further disclosures regarding client assets under management.

Other new standards and interpretations

The following new or revised standards and interpretations did not have any impact on Valartis Group or were not relevant to Valartis Group when applied for the first time:

- IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations;
- IFRS 14 – Regulatory Deferral Accounts;
- AS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation;
- IAS 27 – Equity Method in Separate Financial Statements;
- IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception;
- Annual Improvements 2012–2014.

Other changes

As a result of the realignment of Valartis Group following divestment of the private banking business, segment reporting, which was previously broken down by segments, i.e., Private Banking and Institutional Clients plus Corporate Center, will be revised as of the Annual Report 2016.

As of 31 December 2016 Group external segment reporting will be based on internal reporting to the corporate body responsible for allocation of resources and evaluation of the financial business performance. The responsible corporate body is Executive Management as the body responsible for implementation of overall strategy and operational management. As of 31 December 2016 the Executive Management comprises the Chief Executive Officer and the Chief Financial Officer.

The Group produces a monthly management report containing consolidated financial information for Executive Management and, on a quarterly basis, for the Board of Directors. Executive Management reviews the consolidated financial information at Group level and bases their management decisions on that information.

Segment reporting takes place in accordance with IFRS 8.31 ff. (one single reportable segment); for evaluation, the same principles apply as for the consolidated financial statements.

For this reason, Valartis Group is waiving a separate segment reporting due to the fact that the current external financial reporting reflects internal reporting.

Note 40 includes information on geographic areas based on the domicile of the reporting entity. This geographic information does not reflect the management structure of the Group.

Standards and interpretations which have not yet been implemented

Various new and revised IFRS and interpretations should be applied for financial years beginning after 1 January 2016. Valartis Group has not availed itself of the possibility of early application of these revised standards and interpretations.

IFRS 9 – Financial instruments

The finalised version of IFRS 9 was published in July 2014 and replaces IAS 39. IFRS 9 is subdivided into three phases: classification and evaluation, impairment, and hedge accounting. The classification and evaluation of financial assets is dependent on the instrument's contractual payment flows and the business model under which the instrument is held.

The following categories apply to debt instruments:

- Recognition in the balance sheet at amortised cost using the effective interest method;
- Recognition in the balance sheet at fair value, with changes in fair value being recognised in other comprehensive income and transferred to the income statement if the instrument is sold;
- Recognition in the balance sheet at fair value, with changes in fair value being recognised in the income statement.

All equity capital instruments are valued at their fair value. Changes in fair value are always reported as affecting net income. If an equity capital instrument is not held for trading purposes, for first-time reporting it may irrevocably be classed as an instrument which is reported at fair value, but for which all income components, with the exception of dividends, are reported in "other income" and never – even upon disposal – transferred to the statement of income.

IFRS 9 assumes the regulations on classification and evaluation of financial obligations from IAS 39. However, a new regulation has been included; the effect of changes in own credit risks in connection with financial obligations to which the fair value option is applied, is reported in "other income".

The new impairment model primarily applies to financial assets which are valued at amortised cost or for which changes in fair value are reported in "other income". IFRS 9 also governs hedge accounting, in which case, unification of risk management and accounting is desirable.

The new standard takes effect from 1 January 2018. The previous year need not be adjusted. IFRS 9 has to be applied from 1 January 2018. Based on current analyses, Valartis Group does not expect the new provisions to have any significant overall impacts.

IFRS 15 – Income from contracts with clients

In May 2014, the IASB published new regulations on revenue recognition which replace in their entirety the existing US GAAP and IFRS regulations on reporting of revenue from sales. Revenue is recognised to depict the transfer of goods or services to clients at an amount which reflects the consideration to which the supplier expects to be entitled in exchange for those goods or services.

IFRS 15 comprises a five-step model for recognition of revenue, whereby the type of transaction and industry sector are irrelevant. The standard also stipulates additional disclosures and has to be applied from 1 January 2018. Based on current analyses, Valartis Group does not expect the new provisions to have any significant overall impacts.

IFRS 16 Leasing

In January 2016, the IASB published the new standard for the financial reporting of leases. The new standard introduces a new lessee accounting model that eliminates the classification of leases as either finance leases or operating leases. For all leases, the lessee recognises a leasing liability for its obligation to make future lease payments. At the same time, the lessee capitalises the right to use the underlying asset, which basically corresponds to the present value of future lease payments plus directly attributable costs. Exemptions apply in the case of short-term leases and low-value lease assets. IFRS 16 replaces IAS 17 and the related interpretations and is to be applied for the first time to financial years beginning on or after 1 January 2019. Based on current analysis, Valartis Group does not expect the new provisions to have any significant overall impacts with the exception of the recognition of leasing liabilities and rights of use.

Other not yet implemented standards and interpretations:
- IAS 7 – Disclosure initiative;
- IAS 12 – Recognition of deferred tax assets for unrealised losses
- IAS 40 – Transfers of investment properties
- IFRS2 – Classification and measurement of share-based payment transactions
- IFRIC 22 – Foreign currency transactions and advance consideration
- Annual Improvements 2014–2016

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The 2016 consolidated financial statements were released by the Board of Directors on 3 April 2017. The consolidated financial statements are subject to the approval of the Shareholders' Meeting on 16 May 2017.

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 2016. 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

In reporting year 2016, there were the following changes in the consolidation scope:

On 1 April, Valartis Bank (Austria) AG's banking business was divested to Wiener Privatbank SE within the framework of an asset deal. The asset deal included the sale of the Group entity Valartis Asset Management Kapitalanlagegesellschaft mbH.

Following divestment of the banking business, on 30 September 2016, Valartis Bank (Austria) AG and Valartis (Wien) GmbH were merged by means of a merger by absorption with Valartis (Austria) GmbH, which remained in the consolidation scope.

On 20 September 2016, the holding in Valartis Bank (Liechtenstein) AG was sold to Citychamp Watch & Jewellery Group Ltd. As a result of the sale, the subsidiaries and sub-subsidiaries of Valartis Bank (Liechtenstein) AG also left the consolidation scope.

Via Group entity, Parking Clé de Rive SA, Valartis Group has been involved for several years in a project to construct a new parking garage in Geneva. In September 2016, 49 per cent of shares were sold to a third-party investor, who also generated additional equity capital amounting to CHF 1 million in the form of a capital increase in the company. Valartis Group's share in Parking Clé de Rive SA has therefore been reduced from 100 per cent to 51 per cent.

Changes in the consolidation scope in the previous year:
There were no changes to the consolidation scope in the previous year.

Discontinued operations

In the Annual Report, as in the previous year, the divested private banking businesses in Austria and in Liechtenstein are reported under discontinued operations.

On 1 April 2016, the former Valartis Bank (Austria) AG's property was sold to Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH), a joint venture set up with Wiener Privatbank SE, with the aim of selling the property to a third party. On 16 December 2016, a sales contract governing the sale of shares in the GmbH to a third party was signed. Closing of the contract took place on 2 January 2017. For that reason, the associated company, RHS GmbH, is also reported in the Annual Report 2016 as a discontinued operation. Adjustment to the previous year's reporting is unnecessary due to the fact that the company was first founded in 2016.

At beginning of April 2017 a share purchase agreement (SPA) has been signed governing divestment of the minority holding in Darsi Group. Results for the associated company, Darsi Group, are therefore reported under discontinued operations in the 2016 Annual Report. The corresponding adjustments have been made to the previous year's reporting.

The results and balance sheet values for these discontinued operations are listed separately from continued operations in the 2015 consolidated financial statements. The results for continued and discontinued operations are also listed separately in the consolidated income statement and balance sheet for the previous year.

Consolidation period

The consolidation period for all Group companies is the calendar year. The closing date for the consolidated financial statements is 31 December 2016.

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:

	2016 Balance sheet date rate	2016 Annual average rate	2015 Balance sheet date rate	2015 Annual average rate
EUR	1.0737	1.0900	1.0830	1.0679
USD	1.0190	0.9852	0.9931	0.9622
GBP	1.2537	1.3348	1.4699	1.4703
RUB	1.6750	1.4782	1.3420	1.5857
DZD	0.9222	0.9003	0.9200	0.9607

Segments

Determination of the operating segments is based on the management approach. The management approach reflects the way in which management organises the entity for making operating decisions and for assessing performance, based on specific financial information. Therefore, the adoption of the management approach results in the disclosure of information for segments in substantially the same manner as they are reported internally and used by the entity's chief operating decision maker for purposes of evaluating performance and making resource allocation decisions. In 2016, determination of segments was changed (see Changes to accounting principles, page 51).

Cash and cash equivalents

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

Domestic and non-domestic positions

Domestic includes positions in Liechtenstein.

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 into account 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 instrument. 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 44.

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 44. 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

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

A financial asset is designated as held for trading if the asset was bought 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 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 de-recognised 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".

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".

Embedded derivatives in connection with investment real estate

Rental contracts on the investment real estate Petrovsky Fort in St. Petersburg, Russia, are in USD. Rents have been agreed in a currency which differs from the tenants' currency and from the functional currency used by the Russian company Petrovsky Fort LLC. Rents are dependent on trends in the USD against the ruble, whereby rents are limited to a minimum and a maximum amount. These inherent put and call options in the rental contracts are treated as embedded derivatives in accordance with IFRS. Evaluation of these embedded derivatives is based on the Black-Scholes model.

The embedded derivatives on the asset side are linked with the cash flow generated by the investment real estate and are therefore posted as additional value components in the balance sheet position Investment real estate and as a part of fair value adjustments on investment real estate in "Other income" in the profit and loss account. The embedded derivatives on the liabilities side are posted to the balance sheet position "Derivative financial instruments". Value adjustments are posted in the profit and loss account in "Other income".

Loans

Loans include loans that the Group grants directly to a borrower. 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.

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.

Investment properties

Investment properties are real estate (land, premises or both), which is held by the Group in order to generate rental income, and/or income from added value. For initial reporting, investment properties are recorded at purchase or building cost. For later evaluation, investment properties are recorded at fair value and changes to fair value affect net income. Fair value is evaluated based on an annual independent assessment which is based on the highest level and best possible usage of the property. This takes into consideration the use of the asset which is physically possible, legally permissible, and financially meaningful.

Investment properties in finance leasing

If a leasing agreement transfers the risks and rewards of an asset, the lease is recorded as a finance lease and the related asset is capitalised. Initially the value of the asset is posted at the future non-discounted minimum leasing rate, and, at the maximum, the fair value of the leased asset. For later evaluation the fair value is posted. The corresponding obligations from finance leasing are posted as liabilities.

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 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.

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

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".

Client assets

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. As at 31 December 2016, following divestment of the private banks, there is only one performance-related plan for Swiss employees.

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 over-funding, the net asset to be recorded is limited to the present value of an economic benefit.

Remeasurement 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:

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 received part of the sales considerations in cash in 2012. Another part is connected to the successful completion of development projects of EPH. Due to the difficult conditions on Russian real estate property market, it has been agreed with the buyer of EPH's shares to change the contract (see further details in Note 18). The determination of the fair value of the deferred contingent purchase price consideration of the EPH transaction is still 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.

Investment properties

The fair value of investment properties was calculated by an independent, accredited surveyor. Evaluation was carried out in accordance with the standards of the Royal Institution of Chartered Surveyors (RICS). The discounted cash flow model used in the evaluation takes into consideration the present value of net cash flows from a property, i.e., anticipated trends in rental income, vacancy rate, rent-free periods, other costs not borne by tenants, maintenance costs and investment plans. The anticipated net cash flows are discounted using risk-adjusted discount rates. Location and property-specific criteria are factored into the discount rate.

Evaluation of the investment property held by Valartis Group in St Petersburg in Russia is influenced by the economic and political risks inherent in the Russian national economy. For Valartis Group management, investments in property presuppose a long investment horizon. By means of this approach, risks from short-term value fluctuations can be minimised.

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 real estate property of associated companies Darsi Group, Valartis Group has a real estate valuation carried out annually by an independent expert as value for the real estate property in Darsi's local books is measured according to the terms of the commercial and tax law in Algeria which are different to the rules of IFRS. For the valuation of the real estate property the Management has to make assumptions regarding the mix of tenants for the shopping, leisure and business center and in terms of the development of the Algerian economy. The assumptions for such a valuation contain inherent uncertainties. For additional explanation to the measurement of the associated company Darsi Group 2016 we refer to Note 37 discontinued operations.

Restrictions on capital outflows

As at 31 December 2016, Valartis Group has a holding in the associated company Darsi Group in Algeria (see Note 37, Discontinued operations) and has posted receivables from this company. At beginning of April 2017 a share purchase agreement (SPA) has been signed governing the sale of this holding. There are legal stipulations which permit the transfer of capital out of Algeria only under certain conditions. As a result, there are uncertainties, in particular with regard to how long it will take, in connection with the transfer of the sales price out of Algeria following closing of the transaction. It is expected that conditions for transfer of capital should be fulfilled by presenting the appropriate contractual documents.

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.

NOTES ON RISK MANAGEMENT

STRUCTURE OF RISK MANAGEMENT

Overview
Divestment of all private banking activities means that during 2016, all prerequisites for the consolidated banking supervision of Valartis Group have been eliminated, but also that the significant reduction of risks on the asset side has decreased the requirements and risk density for risk management and controlling. On 20 September 2016, sale of the holding in the Liechtenstein-based banking group eliminated the final prerequisite for consolidated supervision by the Financial Market Authority (FMA) Liechtenstein. Valartis Group is therefore no longer required to undergo supervision from a banking supervisory authority.

For the remaining risks on the asset side, risk management is based on the principles of value-oriented corporate management which includes tailored acceptance of risks and professional control of those risks. Taking into consideration the basic principles of risk capacity, returns-oriented acceptance of risks is now central to risk management.

Organisation of risk management
Following divestment of Valartis Group's banking activities, risk management was adjusted to better conform with the new situation. The former cooperation between decentralised and centralised risk management departments was replaced by a streamlined, centralised risk management organisation.

The Board of Directors remains responsible for the overall risk management of Valartis Group and determines risk policy. It is responsible for setting the annual risk budget, setting limits and the maximum risk tolerance (quantitative and qualitative) in relation to the Group's overall risk capacity. Operational management is responsible for implementing risk management and control principles and assures that set limits are always adhered to.

Valartis Group's activities currently only comprise the following types of risk:
- Market risks (changes in exchange rates on investment assets, interest rate changes and foreign currency risks)
- Liquidity risks
- Credit risks (risk of default on bonds)
- Operational risks

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 price fluctuations on equity holdings
The previously used method for measuring market price fluctuations, value at risk, has been replaced by a simpler sensitivity analysis using historical volatility. Equity holdings are usually characterised by a high level of liquidity. That means that the market risks can be managed in a timely manner and, when necessary, quickly and efficiently reduced. The risk calculation method which is applied takes this factor into consideration and the choice of parameters are regularly reviewed based on market conditions and adjusted as required.

Less liquid products may have longer term holding periods, amongst other things, because market liquidity does not permit rapid expansion or reduction of positions. For this reason, risk assessments are made based on a sensitivity analysis which takes into consideration significant markdowns, with simultaneous changes in other market parameters such as volatility or a sudden drop in product trading volumes.

Valartis Group is subjected to these types of risk via its holdings. In 2016, these risks mainly arose in connection with the holding in Athris Holding AG (financial investments available for sale) and the trading portfolio comprising investments in Russian equities.

Table 1: Sensitivity analysis for market price fluctuations on equity holdings

In CHF 1,000	2016	2015
Volume participation Athris Holding AG	19,265	20,934
Sensitivity 15% based on SIX volatility p. a.	+/-2,890	+/-3,140
Volume trading position equities	5,984	4,820
Sensitivity 30% based on RTX volatility p. a.	+/-1,795	+/-1,446

Interest rate risks

Following divestment of its banking operations, Valartis Group is subject to only low levels of interest rate risks. Through the holding in ENR Russia Invest SA, it has a bonds portfolio valued at CHF 23.3 million, which is largely made up of USD-denominated, Russian corporate bonds.

Table 2: Sensitivity analysis of interest rate risks

In CHF 1,000	2016	2015
Volume trading positions Debt instruments	23,300	14,537
Sensitivity +/-1%	+/-233	+/-145

Currency risks

Currency risks in connection with trading book positions and financial investments are pooled for control and management purposes. Valartis Group always maintains low currency risks. The Group's business activities expose it to the Euro (EUR), US dollar (USD) and Ruble (RUB) which are restricted by means of defined limits.

The sensitivity to a 1 per cent move in exchange rates is shown for all currency risks in table 3.

Table 3: Sensitivity analysis of currency risks

In CHF 1,000	2016	2015
Net currency position in EUR	18,804	-7,588
Sensitivity +/- 4% EUR	752	-303
Net currency position in USD	16,022	10,419
Sensitivity +/- 4% USD	641	417
Net currency position in RUB	5,868	4,703
Sensitivity +/- 7% RUB	411	329

* Sensitivities are based on the monthly volatility of the CHF.

Net currency positions are disclosed in Note 33, Consolidated Statement of Financial Positions by Currency.

LIQUIDITY RISK

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

The table "Maturity structure of assets and liabilities" (Note 34) shows future cash flows based on the earliest contractual maturity, disregarding assumptions about the probability of individual cash flows.

Changes in liquidity are shown in the cash flow statement.

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

Following divestment of the two banks in Liechtenstein and Austria, Valartis Group no longer grants credit to clients. Credit risk according to security will therefore no longer be disclosed, as of FY 2016.

Credit exposure comprises receivables from banks, receivables from clients (from services provided and loans to minority holdings), financial instruments and other assets.

Financial instruments include financial investments available for sale, as well as other financial investment assets at fair value. All other exposures are listed under other assets, in particular, accruals, latent tax receivables and other assets such as escrow accounts.

At all times during the reporting period, credit exposure remained within the limits determined by Executive Management or the Board of Directors.

Table 4: Credit risk – total credit risk/geographical credit risk

in CHF 1,000	Switzerland	Europe	Other	Total
Geographical credit risk 2016				
Due from banks	17,904	6,581	154	24,639
Due from third parties	30	2,132	15,834	17,996
Financial instruments	20,626	29,949	397	50,972
Other assets	5,292	23,003		28,295
Derivative financial instruments	204			204
Subtotal	**44,056**	**61,665**	**16,385**	**122,106**
Contingent liabilities				0
Irrevocable commitments				0
Total at 31 December 2016	**44,056**	**61,665**	**16,385**	**122,106**
Geographical credit risk 2015				
Due from banks	22,163	960	361	23,484
Due from third parties	294	2,317	18,734	21,345
Financial instruments	22,369	18,154	3,953	44,476
Other assets	5,292	11,398		16,690
Derivative financial instruments				0
Subtotal	**50,118**	**32,829**	**23,048**	**105,995**
Contingent liabilities				0
Irrevocable commitments				0
Total at 31 December 2015	**50,118**	**32,829**	**23,048**	**105,995**

The classification of due from third parties is based on the underlying country risk and, therefore, may differ compared with an allocation based on the domicile of the borrower.

Table 5: Credit risk – total credit risk/breakdown by counterparty

in CHF 1,000	Banks	Public sector entities	Private and institutional investment clients	Other	Total
Breakdown by counterparty 2016					
Due from banks	24,639				24,639
Due from third parties				17,996	17,996
Financial instruments	1,527	35	0	49,410	50,972
Other assets	4,655	1,949		21,691	28,295
Derivative financial instruments	204				204
Subtotal	**31,025**	**1,984**	**0**	**89,097**	**122,106**
Contingent liabilities					0
Irrevocable commitments					0
Total at 31 December 2016	**31,025**	**1,984**	**0**	**89,097**	**122,106**
Breakdown by counterparty 2015					
Due from banks	23,484				23,484
Due from third parties	280			21,065	21,345
Financial instruments	6,265		4,664	33,547	44,476
Other assets	4,212	999		11,479	16,690
Derivative financial instruments					0
Subtotal	**34,241**	**999**	**4,664**	**66,091**	**105,995**
Contingent liabilities					0
Irrevocable commitments					0
Total at 31 December 2015	**34,241**	**999**	**4,664**	**66,091**	**105,995**

Table 6: 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 2016						
Due from banks	147	7,411		17,081		24,639
Due from third parties				17,996		17,996
Financial instruments		1,043	16,022	33,907		50,972
Other assets	1,397			26,898		28,295
Derivative financial instruments				204		204
Subtotal	**1,544**	**8,454**	**16,022**	**96,086**	**0**	**122,106**
Contingent liabilities						0
Irrevocable commitments						0
Total at 31 December 2016	**1,544**	**8,454**	**16,022**	**96,086**	**0**	**122,106**
Quality of assets 2015						
Due from banks	3,116			20,368		23,484
Due from third parties				21,345		21,345
Financial instruments			11,608	32,868		44,476
Other assets				16,690		16,690
Derivative financial instruments						0
Subtotal	**3,116**	**0**	**11,608**	**91,271**	**0**	**105,995**
Contingent liabilities						0
Irrevocable commitments						0
Total at 31 December 2015	**3,116**	**0**	**11,608**	**91,271**	**0**	**105,995**

As a general rule, a loan is classified as impaired when it is more than 90 days overdue. For 2016 and in prior year there are no such positions.

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
Identification of operational risks is one of the permanent responsibilities of management and is carried out when introducing new operational activities, processes and products and also periodically for those which have already been established. In the case of critical operational processes, key risk monitoring process and indicators are used.

Treatment of risks which have been identified is always processed by the operational unit within the framework conditions which have been stipulated. A decision as to whether risk avoidance, risk reduction or risk transfer is most appropriate, or whether the risk should be accepted, is based mainly on a cost-benefit analysis.

Regular monitoring of operational risks is embedded in operational processes, as far as possible. Separation of functions and a four-eye principle are central elements of monitoring. A separate, process-independent control is carried out by centralised controlling. The Board of Directors has the overall control of management of operational risks based on standardised reporting and ad-hoc information.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. INCOME FROM INTEREST AND DIVIDENDS

in CHF 1,000	2016	2015
Interest and dividend income from the trading portfolio	1,199	967
Other interest income	715	511
Total interest and dividend income	**1,914**	**1,478**
Interest expense for loans	-2,728	-3,676
Other interest expense	-381	-35
Total interest expense	**-3,109**	**-3,711**
Total	**-1,195**	**-2,233**

2. INCOME FROM COMMISSION AND SERVICE FEES

in CHF 1,000	2016	2015
Other commission income	5,083	3,534
Total income from commission and service fee business	**5,083**	**3,534**
Other commission expenses	0	-1
Total commission expenses	**0**	**-1**
Total	**5,083**	**3,533**

3. INCOME FROM TRADING

in CHF 1,000	2016	2015
Interest rate instruments	-172	-3,851
Securities	1,271	-166
Currencies	3,487	390
Funds	70	113
Total	**4,656**	**-3,514**
thereof trading	6,093	1,907
thereof designated at fair value	-1,437	-5,421

4. OTHER ORDINARY INCOME

in CHF 1,000	2016	2015
Income from associates	690	-4,651
Income from the sale of financial assets available for sale	88	0
Net income from real estate	6,129	6,902
Net result from fair value adjustment and foreign currency for investment property investment	987	-15,653
Finance costs investment property	-1,933	-1,977
Other income	2,188	404
Total	**8,149**	**-14,975**

Income from associates [1]		
Share in result	690	-668
Gain from release of additional payment liability		705
Adjustment of purchase price of associate		-4,688
Income from associates	**690**	**-4,651**

Income from fair value adjustment and foreign exchange effect on investment property		
Fair value adjustment on investment property including effect from foreign currency translation	-2,543	-5,327
Fair value adjustment on embedded derivative (asset)	-2,287	1,422
Subtotal	-4,830	-3,905
Fair value adjustment of embedded derivative (liability)	2,287	-1,422
Result from foreign exchange translation of for banking loan investment property	3,530	-10,326
Subtotal	5,817	-11,748
Net result from fair value adjustment and foreign currency for investment property investment	**987**	**-15,653**

ENR Russia Invest SA, a Group company, holds an investment property located in St. Petersburg, Russia. Rental income of the investment property is contractually linked to USD/ruble rates. The investment property is recognised in the balance sheet at fair value, which is appraised at each balance sheet date by an independent expert. According to IFRS the result from exchange translation is recognised as part of the gain or loss arising on the fair value re-measurement of the investment property.

The credit facilities for the investment property are consisting of a banking loan in USD. Due to this constellation, fair value adjustment and the effect of currency translation for the property amounting to CHF -4.8 million (previous year: CHF -3.9 million) are listed together with financing amounting to CHF 5.8 million (previous year: CHF -11.8 million). In 2016, the high level of value fluctuation, as in the previous year, can be attributed to the poor condition of the Russian real estate market and the fluctuation of the Russian ruble against the USD.

5. PERSONNEL EXPENSE

in CHF 1,000	2016	2015
Salaries and bonuses	-6,613	-5,635
Social security benefits	-813	-706
Contributions to occupational pension plans	-59	-355
Share-based payments	-143	-388
Other personnel expense	-1,338	-1,302
Total	**-8,966**	**-8,386**

6. GENERAL EXPENSE

in CHF 1,000	2016	2015
Occupancy expense	-1,607	-1,497
IT and information expense	-246	-424
Office and business expense	-6,792	-8,967
Other general expense	-2,142	-1,599
Total	**-10,787**	**-12,487**

7. DEPRECIATION AND AMORTISATION

in CHF 1,000	2016	2015
Depreciation of property, plant and equipment	-90	-87
Amortisation of intangible assets	0	-953
Total	**-90**	**-1,040**

8. VALUATION ADJUSTMENTS, PROVISIONS AND LOSSES

in CHF 1,000	2016	2015
Impairments on goodwill	0	-9,562
Other impairments	-5,554	-2,218
Impairment reversals	16	0
Losses	-223	-64
Change in provisions	-318	-910
Total	**-6,079**	**-12,754**

Other impairments in 2016 are explained in Note 14 and the changes in provisions in Note 29. For the impairments on goodwill, we refer to Note 24.

9. INCOME TAXES

in CHF 1,000	2016	2015
Current income taxes	-5,070	-2,282
Change in deferred taxes	6,924	-2,397
Total	**1,854**	**-4,679**
Net loss from continued operations before tax	-9,229	-51,856
Net loss from discontinued operations before tax	-30,730	-1,875
Net loss before tax	-39,959	-53,731
Expected income tax rate [1)]	14.2%	14.7%
Expected income taxes	5,670	10,637
Difference between expected and actual tax rate	3,529	447
Prior-year adjustments	-1,580	-58
Tax-exempted income (incl. income from investments)	698	1,566
Not recognised tax loss carry-forwards	-2,983	-2,215
Impairment on tax assets	-300	-7,883
Use of not recognised tax loss carry-forwards	7,649	135
Non-tax-deductible expenses	-9,823	-4,513
Other effects	-1,006	-78
Effective income taxes	1,854	-4,679
Income tax as disclosed in the consolidated income statement	-2,759	1,434
Income tax attributable to discontinued operations	4,613	-6,113
	1,854	**-4,679**

1) The expected income tax rate is based on the ordinary income tax rate at the domicile of the parent company in Baar, Zug, Switzerland.

Deferred tax

in CHF 1,000	2016	2015
Development of deferred tax (assets)/liabilities, net		
Position at 1 January	-221	4,553
Change in scope of consolidation		
Discontinued operations		-3,564
Changes affecting the income statement	794	-1,598
Changes not affecting the income statement	-60	279
Foreign exchange translation differences	112	109
Position at 31 December tax liabilities/(assets), net	**625**	**-221**
Expiry of non-capitalised tax allowances for losses		
Within 1 year		
From 1 to 5 years	17,827	5,652
After 5 years	154,068	217,315
Total	**171,895**	**222,967**
Expiry of non-capitalised tax allowances for losses from continued operations	0	0
Disposal of non-capitalised tax allowances for losses from discontinued operations	0	-979
Reconciliation deferred taxes		
Deferred tax assets		
Tax loss carry-forwards	3,595	4,485
Others	536	0
Netting	-3,595	-4,177
Total deferred tax assets	**536**	**308**
Deferred tax liabilities		
Contingent purchase consideration for Eastern Property Holdings Ltd.	16	87
Property, plant and equipment and investment properties	4,740	4,177
Others	0	0
Netting	-3,595	-4,177
Total deferred tax liabilities	**1,161**	**87**

10. EARNINGS PER SHARE

	2016	2015
Net loss attributable to the shareholders of Valartis Group AG in CHF 1,000	-43,250	-57,220
Net loss from continued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-17,133	-49,232
Net loss from discontinued operations attributable to the shareholders of Valartis Group AG, in CHF 1,000	-26,117	-7,988
Weighted average number of shares	5,000,000	5,000,000
less weighted average number of treasury shares	-273,677	-301,391
Undiluted weighted average number of shares	4,726,323	4,698,609
Outstanding share options, number of shares	0	0
Diluted weighted average number of shares	4,726,323	4,698,609
Earnings per share	in CHF	in CHF
Undiluted, attributable to shareholders of Valartis Group AG	-9.15	-12.18
Diluted, attributable to shareholders of Valartis Group AG	-9.15	-12.18
Earnings per share from continued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-3.62	-10.48
Diluted, attributable to shareholders of Valartis Group AG	-3.62	-10.48
Earnings per share from discontinued operations		
Undiluted, attributable to shareholders of Valartis Group AG	-5.53	-1.70
Diluted, attributable to shareholders of Valartis Group AG	-5.53	-1.70

11. SHARE-BASED PAYMENT

Number	2016	2015
Holdings of rights at 1 January	34,307	74,300
Allotted rights (addition)	0	0
Granted during the year (reduction)	-19,739	-39,993
Forfeited rights (reduction)	0	0
Reduction due to sale of entities (discontinued operations)	0	0
Holdings of rights at 31 December	**14,568**	**34,307**
Fair value of the outstanding rights in CHF 1,000 [1)]	99	290
Average price of shares upon allotment, in CHF	20.94	21.05
in CHF 1,000		
Charged as personnel expense in the year under review	-143	-410
of which continued operations	-143	-388
of which discontinued operations	0	-22
Estimated charge to personnel expense for the remaining vesting periods	-25	-162
Maximum anticipated charge to personnel expense for the remaining vesting periods	-25	-167

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

Content and process of determining remuneration and share ownership programmes are described in the Remuneration Report. 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”.

pension plans for the employees in Switzerland were transferred from the independent pension fund to a Group insurance contract of an insurance provider. The independent pension fund is in the process of liquidation as per 31 December 2016.

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. In the fourth quarter 2015, the employee

There are no pension plans in place for the Valartis Group employees in Russia. The last actuarial calculation for performance-related plans took place on 31 December 2016, with the following results:

Balance sheet items

in CHF 1,000	31.12.2016	31.12.2015
Present value of pension liabilities	13,401	26,650
Market value of plan assets	11,153	23,366
Pension liabilities/(pension assets)	**2,248**	**3,284**
Impact of the limitation as per IAS 19.64 b)		
Total pension liabilities/(pension assets)	**2,248**	**3,284**
whereof disclosed as other assets		
whereof disclosed as other liabilities	2,248	3,284

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

in CHF 1,000	2016	2015
Net liabilities/(assets) at 1 January	3,284	1,397
Defined benefit cost recognised in personnel expense	-13	355
Defined benefit cost recognised in other comprehensive income	-582	3,482
Employer contributions	-441	-604
Foreign exchange losses/(gains)		-139
Net liabilities/(assets) at 31 December	**2,248**	**4,491**
whereof continued operations	2,248	3,284
whereof discontinued operations		1,207

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

in CHF 1,000	2016	2015
Components of pension costs in personnel expense		
Annual pension costs	620	900
Passive service costs	745	-567
Curtailment	-1,405	
Net interest expense/(income)	27	22
Pension costs for defined benefit plans	**-13**	**355**
Employer’s pension expense for defined contribution plans	72	1,555
Total pension costs	**59**	**1,910**
whereof discontinued operations		-1,555
Total pension costs recognised in personnel expense	**59**	**355**
Defined benefit cost recognised in other comprehensive income		
Actuarial (gain)/loss on liabilities	-416	-3,390
Actuarial (gain)/loss on assets	-166	-92
Total remeasurement recognised in other comprehensive income	**-582**	**-3,482**
whereof continued operations	-582	-3,271
whereof discontinued operations		-211

Change in pension liabilities

in CHF 1,000	2016	2015
Present value of pension liabilities at 1 January	26,650	25,468
Annual pension costs	620	900
Employee contributions	294	292
Interest on pension liabilities	230	344
Paid (out)/in benefits and vested benefits	-2,453	2,732
Actuarial (gains)/losses	-416	3,390
of which from adjustment to financial assumptions	200	674
of which from adjustment to demographic assumptions	-116	
of which from adjustment to experience-based assumptions	-500	2,716
Foreign exchange loss/(gain)		-630
Past service costs	745	-567
Settlement of a defined benefit plan	-3,981	
(De-consolidation retired employees)/acquisition	-8,288	
Discontinued operations		-5,279
Present value of pension liabilities at 31 December	**13,401**	**26,650**

Change in pension assets

in CHF 1,000	2016	2015
Market value of available pension assets at 1 January	23,366	24,071
Employee contributions	294	292
Employer contributions	441	485
Paid (out)/in benefits and vested benefits	-2,453	2,851
Expected return on plan assets	203	322
Actuarial loss/(gain)	166	-92
Foreign exchange (gain)/loss		-491
(De-consolidation retired employees)/acquisition	-8,288	
Settlement of a defined benefit plan	-2,576	
Discontinued operations		-4,072
Market value of available pension assets at 31 December	**11,153**	**23,366**

Main groups of the pension fund assets

in per cent	31.12.2016	31.12.2015
Liquidity	4.7	0.0
Bonds	0.0	75.1
Real estate	0.0	16.2
Shares [1]	0.4	3.2
Others [2]	94.9	5.5

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

2) Assets named "Others" are consisting of assets invested by Group insurance foundation Axa at Axa Life Insurance Ltd. based on limitation of BVG/LLP regulations.

Actuarial assumptions

in per cent	31.12.2016	31.12.2015
Discount rate (Switzerland)	0.7	0.9
Discount rate (Austria)	n/a	2.0
Expected rate of salary increases Switzerland	1.5	1.5
Expected rate of salary increases Austria	n/a	2.0
Pension adjustments Switzerland	0.0	0.0
Pension adjustments Austria	n/a	1.5–2.0

Demographic assumptions (e.g. probabilities of death, disability and turnover) are based on the BVG/LLP 2015 actuarial tables (prior year on BVG/LLP 2010 actuarial tables). These generational tables are based on observations of large pools of insured persons in Switzerland over several years.

Estimate of contributions for the following year

in CHF 1,000	2017	2016
Employee contributions	155	295
Employer contributions	233	441

The estimation of contributions for the following year contains only the contribution for the continued operations.

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 ceteris paribus by 50 basis points.

	31.12.2016	Proportion in per cent
Current actuarial calculation of the defined benefit obligation	13,401	100
Discount rate		
Increase of 50 basis points	-452	-3.4
Reduction of 50 basis points	508	3.8
Salary trend		
Increase of 50 basis points	119	0.9
Reduction of 50 basis points	-114	-0.9

Current pension obligations have been transferred from the independent Pension Fund to Axa Winterthur. If Valartis Group would terminate the contract with the Group insurance for employee benefits and sign a new contract with another provider, these current pension obligations would stay with Axa Winterthur. Therefore no sensitivity analysis for changes in longevity is disclosed.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

13. CASH

in CHF 1,000	31.12.2016	31.12.2015
Cash balance	1	4
Total	**1**	**4**

14. DUE FROM BANKS AND THIRD PARTIES

in CHF 1,000	31.12.2016	31.12.2015
Due from banks at sight	21,110	23,159
Due from banks, time deposits	3,529	325
Total due from banks	**24,639**	**23,484**
Due from third parties	23,467	21,345
Subtotal	**23,467**	**21,345**
Valuation adjustments for default risk [1]	-5,471	0
Total due from third parties	**17,996**	**21,345**

1) Within the framework of negotiations on a sales transaction, receivables amounting to CHF 4.9 million were classified as endangered, and adjusted. For another receivable in the amount of CHF 0.6 million an impairment has been recognised, as there are indications that the contractually owed amount may not be recovered in full.

15. TRADING PORTFOLIO ASSETS

in CHF 1,000	31.12.2016	31.12.2015
Debt instruments		
Debt instruments of financial institutions	12,103	8,982
Debt instruments of companies	11,198	5,556
Total debt instruments	**23,301**	**14,538**
Equity instruments		
Total	**7,295**	**6,270**
Investment fund units		
Total	**456**	**477**
Total trading portfolio assets	**31,052**	**21,285**
of which lent out trading portfolio assets	0	0

16. FINANCIAL ASSETS AVAILABLE FOR SALE

in CHF 1,000	31.12.2016	31.12.2015
Equity instruments		
Total	**19,458**	**21,128**
Total financial assets available for sale	**19,458**	**21,128**
of which lent out	0	0

17. OTHER FINANCIAL ASSETS AT FAIR VALUE

in CHF 1,000	31.12.2016	31.12.2015
Debt instruments		
Debt instruments	**462**	**2,063**
Total other financial assets at fair value	**462**	**2,063**

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 successful completion and sale of development projects of EPH.

The contract – which runs until 1 January 2019 – governs a real estate project in Moscow which is due to be sold by the end of the contract. Although the value of the almost completed real estate rose during the reporting year, the continuing, challenging real estate market in Moscow has meant that no units in the building complex have as yet been sold. For that reason, in 2016, the fair value for the contingent purchase price was adjusted of CHF -1.4 million (previous year: CHF -5.1 million). The adjustment of the fair value is recorded in the trading result (see Note 3). The adjustment of the fair value is recorded in the trading result (see Note 3).

For the portion of contingent considerations which is secured by a cash-escrow account see Note 23 “Other assets”.

18. ASSOCIATED COMPANIES

in CHF 1,000	31.12.2016	31.12.2015
Position at 1 January	37,125	45,335
Additions [1]	2,189	
Re-classification to discontinued operations (see Note 37)	-22,950	
Share in net profit/(loss)	690	-5,534
Foreign exchange translation differences		-2,676
Position at 31 December	**17,054**	**37,125**
of which Darsi Investment Ltd.		9,284
of which Société des Centres Commerciaux d’Algérie SPA		11,490
of which Norinvest Group	16,940	15,950
of which Gebäudebesitz Rathausstrasse 20 GmbH	0	
of which others	114	401

	2016	2015
Share in net profit/(loss)	690	-5,534
Gain from release of additional payment liability		705
Adjustment for purchase price of Norinvest Group		-4,688
Result from associated companies (continued operations)	**690**	**-9,517**

1) Additions into the associated companies refers to the banking real estate sold by Valartis Bank (Austria) AG to the associated company, Gebäudebesitz Rathausstrasse 20 GmbH. As at 31 December 2016, the associated company is reported under discontinued operations, due to the fact that the shares in this company are to be sold.

Norinvest Group

After the sale of Valartis Bank AG and Valartis Wealth Management SA to Banque Cramer & Cie SA in 2014, Valartis Group acquired a 25 per cent holding in Norinvest Holding SA, Geneva.

The sales contract from September 2014, governing the holding in Norinvest Holding SA contained a clause, in accordance with which the sales price must be subsequently adjusted if the Norinvest Group sells a property above or below the carrying value which applied at that time. In 2015, Norinvest Group sold a property at a price which was considerably higher than the earlier carrying price. This resulted in costs for Valartis Group amounting to CHF 4.7 million arising out of the subsequent sales price adjustment in 2015 and was posted as a liability owed to Norinvest Holding SA. In December 2016, this receivable was settled in cash.

Darsi Group

The Darsi subgroup consists of the following two companies: Darsi Investment Ltd. and Société des Centres Commerciaux d'Algérie SPA (SCCA), Algiers. By means of this subgroup, the Group is invested in the "Bab Ezzouar" shopping, leisure and business center in Algeria. As at 31 December 2016, Valartis Group held 32.4 per cent of Darsi Investment Ltd., an investment company with its registered office in Tortola, British Virgin Islands (prior year: 32.4 per cent). Darsi Investment Ltd. in turn holds a controlling majority stake of 53.9 per cent in Société des Centres Commerciaux d'Algérie SPA, the owner of the shopping center in Algiers (prior year: 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.

As at 31 December 2016, the holding in Darsi Group is classified as discontinued operations, which is why, for 2016, there are no disclosures in this Note.

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Panariello Enterprises Ltd.

At the end of 2013, ENR Russia Invest SA (ENR) invested in a private equity investment, Panariello Enterprises Ltd. Up to 2015, a portion of the investment sum was posted as a liability due to an associated company. These funds, which were not required by the associated company at the time of sale, were intended to be used to expand Panariello's sales outlets in accordance with the agreed business plan. In 2015, further expansion of the sales network was cut back. Funds which at that time had still not been used, in the form of the liability posted, amounted to around TCHF 705 and were written back to the income statement.

In 2016, the majority shareholder in, and main supplier to, Panariello Enterprise Ltd. discontinued supplying Panariello at former price conditions, as a result of the crisis in the Russian economy. Panariello sales outlets had to close. Currently, negotiations are taking place on a continuation of business. The book value of the associated holding, Panariello, was adjusted, excepting goodwill amounting to TCHF 100. The figures for associated companies on the following pages only include balance sheet figures carried forward from 2015.

Details for the associated companies are disclosed on the following page.

Details for associated companies

in CHF 1,000	Darsi Group		Norinvest Group [3]		Other associated companies	
	31.12.2016 [1]	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Revenue		13,850	59,000	59,300	-	1,012
Income from continued operations		-5,352	4,000	14,600	-	-742
Other comprehensive income		-11,265	-31	0	-	310
Total comprehensive income		-16,617	3,969	14,600	-	-432
Dividends received		0	0	0	-	0
Short-term assets		9,152	1,642,278	1,655,194	516	434
Long-term assets		105,267	319,811	321,766	271	218
Short-term liabilities		44,027	1,885,034	1,910,018	942	807
Long-term liabilities		30,278	12,295	6,151	689	423
Shareholders' equity at 31 December		40,114	64,760	60,791	-844	-578
Non-controlling interests		11,490				
Total shareholders' equity (excluding non-controlling interests)		**28,624**	**64,760**	**60,791**	**-844**	**-578**
Share of the Group		32.44%	25.00%	25.00%	49.00%	49.00%
Carrying amount of participation on Darsi Group		9,285				
Carrying amount of non-controlling interests on SCCA [2]		11,490				
Total carrying amount associated companies		20,775	16,189	15,199	0	0
Goodwill			751	751	401	1,339
Impairment					-301	-938
Net carrying amount		20,775	16,940	15,950	100	401

1) For Darsi Group as per 31 December 2016, please see Note 37 discontinued operations.

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

3) Norinvest Holding SA is reporting its financial results after Valartis Group. Therefore, Valartis Group estimates its share on the result of Norinvest Group for the equity accounting of this associated company, based on public available information. Any differences between these estimates and actual results will be adjusted in the Group's 2017 consolidated financial statements when available.

19. 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 2014	499	2,474	14,642	43,195	30,411	91,221
Investments			3	95	-1	97
Divestments			-253		-84	-337
Discontinued operations (Note 37)	-225	-2,473	-13,969	-43,112	-30,326	-90,105
Foreign exchange translation differences	-56		-56			-112
Carrying amount at 31 December 2015	**218**	**1**	**367**	**178**	**0**	**764**
Investments			49			49
Divestments				-3		-3
Discontinued operations (Note 37)						0
Foreign exchange translation differences	56		59			115
Carrying amount at 31 December 2016	**274**	**1**	**475**	**175**	**0**	**925**
Cumulative depreciation						
Carrying amount at 31 December 2014	-388	-1,564	-10,109	-5,781	-29,624	-47,466
Depreciation	-27	-1	-59			-87
Divestments			253		84	337
Discontinued operations (Note 37)	225	1,564	9,571	5,781	29,540	46,681
Foreign exchange translation differences	37		51			88
Carrying amount at 31 December 2015	**-153**	**-1**	**-293**	**0**	**0**	**-447**
Depreciation	-25	0	-65			-90
Divestments						
Discontinued operations (Note 37)						0
Foreign exchange translation differences	-39		-57			-96
Carrying amount at 31 December 2016	**-217**	**-1**	**-415**	**0**	**0**	**-633**
Net carrying amount at 31 December 2016	**57**	**0**	**60**	**175**	**0**	**292**
Net carrying amount at 31 December 2015	**65**	**0**	**74**	**178**	**0**	**317**

Future liabilities from operating leases

in CHF 1,000	31.12.2016	31.12.2015
Future liabilities from operating leases		
Remaining term up to 1 year	1,330	1,447
Remaining term from 1 to 5 years	2,892	3,552
Remaining term over 5 years	0	97
Total	**4,222**	**5,096**
Future receivables from operating leases		
Remaining term up to 1 year	1,787	1,646
Remaining term from 1 to 5 years	798	1,158
Remaining term over 5 years	0	0
Total	**2,585**	**2,804**

Operating leases

As at 31 December 2015, 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 1.4 million (prior year: CHF 1.5 million).

The rental income from operating leasing of about CHF 6.1 million (prior year: CHF 7.6 million) is part of other income (see Note 4) and is related to the investment property Petrovsky Fort.

20. INVESTMENT PROPERTY

in CHF 1,000	Investment properties buildings	Embedded derivatives	Investment properties financial leasing	Total
Carrying amount at 31 December 2014	41,048	2,945	1,674	45,667
Investments	1		128	129
Fair value adjustments including foreign currency effects	-5,327	1,422		-3,905
Foreign exchange translation differences	-7,572	-820	-346	-8,738
Carrying amount at 31 December 2015	**28,150**	**3,547**	**1,456**	**33,153**
Carrying amount at 31 December 2015	28,150	3,547	1,456	33,153
Investments				0
Disposals	-233			-233
Fair value adjustments including foreign currency effects	-2,543	-2,287		-4,830
Foreign exchange translation differences	6,632	578	343	7,553
Carrying amount at 31 December 2016	**32,006**	**1,838**	**1,799**	**35,643**

Valuation

ENR Group holds the business center real estate Petrovsky Fort in St. Petersburg, Russia. Rental incomes of the investment property are contractually linked to USD/ruble rates. The translation to functional currency results in a significant impact on the fair value of the investment property. The fair value is appraised by an independent expert yearly. As per 31 December 2016, the fair value based on the valuation report has increased but was overcompensated by a negative development of the USD/ruble foreign currency rate during 2016. The fair value adjustments as disclosed in the table are caused by the translation of the USD-valued investment property into the ruble-based balance sheet of the company and by the fair value change of the embedded derivative. Based on the input parameters of the valuation method used, the measurement of fair value is categorised under level 3.

Embedded derivatives

The majority of the rental contracts for Petrovsky Fort are coupled to trends in the USD/ruble rate. They contain a corridor for the USD/ruble rate which governs the level of rents, which are paid in rubles. The inherent put and call options on the purchase and sale of foreign currency are classified as embedded derivatives because the USD is not the functional currency of the Petrovsky Fort LLC company, or the tenants. The anticipated income used to value the real estate does not include the effects of these embedded derivatives, which is why they are incorporated as separate components in the overall value of the real estate. At the same time, the derivatives are reported as a derivative financial instrument with negative replacement value on the liabilities side.

21. ACCRUED AND DEFERRED ASSETS

in CHF 1,000	31.12.2016	31.12.2015
Management and performance fees	0	10
Accrued interest	306	209
Other accrued and deferred assets	2,481	2,099
Total	**2,787**	**2,318**

22. OPEN DERIVATIVE FINANCIAL INSTRUMENTS (TRADING INSTRUMENTS)

in CHF 1,000	Positive replacement values	Negative replacement values	Contract volume
Currencies			
Forward contracts	204	0	20,246
Options (OTC)		1,838	6,863
Total at 31 December 2016	**204**	**1,838**	**27,109**
Forward contracts		192	14,966
Options (OTC)	0	3,548	7,641
Total at 31 December 2015	**0**	**3,740**	**22,607**
Total open derivative financial instruments at 31 December 2016	**204**	**1,838**	**27,109**
Total open derivative financial instruments at 31 December 2015	**0**	**3,740**	**22,607**

23. OTHER ASSETS

in CHF 1,000	31.12.2016	31.12.2015
Value added tax and other indirect taxes	1,413	691
	23,559	13,373
Total	**24,972**	**14,064**

Other receivables consist mainly of the parts as described below:

Included in this category is a receivable of CHF 2.2 million (previous year: CHF 4.2 million) due from the purchaser of Valartis Bank AG and Valartis Wealth Management SA which constitutes the deferred divestment price.

In 2015, Valartis Group received CHF 3.4 million from the cash-secured escrow accounts from divestment of EPH and had to write off the remaining CHF 2.6 million against the 2015 results. The remaining escrow account amounting to CHF 3.7 million which was still reported as at 31 December 2016, (31 December 2015: CHF 3.6 million) refers to a third party. Developments in this position have had no influence on Valartis Group's results since 2015.

An escrow account amounting to CHF 2.1 million (EUR 2 million) from divestment of Valartis Bank (Austria) AG on 1 April 2016, which will serve as security against any warranty claims from the purchaser until end-March 2017 (see also Note 45).

Also reported under this position are an outstanding receivable from divestment of Valartis Bank (Liechtenstein) AG due from the purchaser, Citychamp Watch & Jewellery Group Ltd. (closing accounts) and amounting to CHF 5 million, plus an escrow account of CHF 4.1 million. Payment of CHF 5 million took place after the balance sheet date in January 2017, the escrow account will be unblocked on 20 December 2017, as long as the purchaser does not assert any warranty claims.

A further component is an advance payment amounting to CHF 5.9 million, or 350 million rubles (previous year: CHF 4.7 million or 350 million rubles) made by ENR Russia Invest SA for a real estate project. The change over the previous year can be solely attributed to fluctuations in the ruble/CHF exchange rate and did not affect results. In 2016, the project was put on hold because new building specifications had to be agreed with the local authorities. This agreement was reached in 2016.

An increase in the investment of additional tranches of around CHF 10.2 million (615 million rubles) is planned.

24. GOODWILL AND OTHER INTANGIBLE ASSETS

in CHF 1,000	Goodwill	Intangible assets with finite useful lives	Total
Acquisition costs			
Carrying amount at 31 December 2014	**30,280**	**47,405**	**77,685**
Divestments		-6	-6
Discontinued operations (Note 37)	-15,409	-45,459	-60,868
Foreign exchange translation differences	-472		-472
Carrying amount at 31 December 2015	**14,399**	**1,940**	**16,339**
Discontinued operations (Note 37)	-12,562	-1,940	-14,502
Foreign exchange translation differences	455		455
Carrying amount at 31 December 2016	**2,292**	**0**	**2,292**
Cumulative amortisation/impairment			
Carrying amount at 31 December 2014	**-10,525**	**-31,578**	**-42,103**
Amortisation		-953	-953
Losses from impairment	-9,562		-9,562
Discontinued operations (Note 37)	7,525	30,585	38,110
Foreign exchange translation differences		6	6
Carrying amount at 31 December 2015	**-12,562**	**-1,940**	**-14,502**
Amortisation		0	0
Losses from impairment			0
Discontinued operations (Note 37)	12,562	1,940	14,502
Foreign exchange translation differences			0
Carrying amount at 31 December 2016	**0**	**0**	**0**
Net carrying amount at 31 December 2016	**2,292**	**0**	**2,292**
Net carrying amount at 31 December 2015	**1,837**	**0**	**1,837**

Allocation and carrying amounts of goodwill and intangible assets
As of 31 December 2015, the carrying amounts of goodwill and intangible assets for continued operations are allocated to the corresponding cash-generating units (CGUs) as follows:

2016 in CHF 1,000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable amount
CGU Petrovsky Fort (investment property)	2,292			2,292	Fair value less cost of disposal
Total	**2,292**	**0**	**0**	**2,292**	

2015 in CHF 1,000	Goodwill	Intangible assets with finite useful lives	Intangible assets with indefinite useful lives	Total	Approach for determining the recoverable amount
CGU Petrovsky Fort (investment property)	1,837			1,837	Fair value less cost of disposal
Total	**1,837**	**0**	**0**	**1,837**	

The goodwill and intangible assets of the business segment “Private Clients” have been allocated to discontinued operations since 31 December 2015. These operations were sold in 2016.

Impairment testing of goodwill and intangible assets for GCU Asset Management and Investment Management
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.

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

Discontinued operations
The goodwill and intangible assets of the discontinued operations are disclosed in Note 37.

The impairment test for the goodwill of continued operations was performed at 31 December 2016 and is disclosed in the following section.

Continued operations
CGU Petrovsky Fort
The acquisition of Romsay Properties Ltd and Stainfield Ltd by ENR Group in 2014 resulted in goodwill (goodwill Petrovsky Fort). The goodwill amounts at 31 December 2016 CHF 2.3 million (previous year: CHF 1.8 million). The increase of CHF 0.5 million compared to prior year can be attributed to exchange-rate differences arising from the development of the Russian ruble.

Recognised goodwill is based on the structure of the three entities acquired, which hold the investment property Petrovsky Fort. Goodwill can primarily be attributed to recognised deferred taxes which are linked with the investment property and the company structure. Impairment testing of goodwill is based on a comparison between the market value of deferred taxes and their book value. In 2016 as well as for prior year, there was no need for impairment.

Impairment 2015
Due to reorganisation and the introduction of a new strategic direction of Valartis Group after sale of the private banking business in Liechtenstein and Austria and a steady decrease of the assets under management, the management assessed the goodwill as impaired in full.

This impairment of CHF 7.6 million on the goodwill for CGU Asset Management was booked at the expense of earnings 2015.

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

in CHF 1,000	31.12.2016		31.12.2015	
	Market value	Effective commitment	Market value	Effective commitment
Amounts due from banks and clients	0	0	0	0
Financial instruments	0	0	0	0
Investment property	32,006	23,761	28,150	24,079
Other assets			400	400
Total	**32,006**	**23,761**	**28,550**	**24,479**
Intercompany loan [1)]	0	0	23,867	23,867

1) An intercompany loan was assigned to secure a loan from a third party. In the consolidation process the intra-Group loan is eliminated and is, therefore, not included in the consolidated assets of Valartis Group. The assignment has been lifted in 2016 and the loan has been repaid.

As a result of the moratorium, Valartis Group was not able to freely access assets which had been used as security for intra-Group loans. This included fully consolidated holdings and shares in associated companies amounting to CHF 11.1 million together with available for-sale-financial instruments worth CHF 16.0 million. The investment property is pledged in favoor of the financing bank.

26. DUE TO BANKS AND OTHER SHORT-TERM FINANCIAL LIABILITIES

in CHF 1,000	31.12.2016	31.12.2015
Due to banks	32,004	30,946
Total	**32,004**	**30,946**
Other short-term financial liabilities	7,155	29,503
Total	**7,155**	**29,503**

The position due to banks includes the loan facility agreement of CHF 23.8 million (previous year CHF 24.08 million) with UniCredit Bank financing the investment property Petrovsky Fort. The following loan covenants were not met anymore at 31 December 2015:

– ratio of debt service to rental income (at least 115 per cent)
– ratio of loan-to-value (not more than 55 per cent)
– minimum rental rate per square metre (at least USD 156 per square metre)

In July 2016, an agreement was reached with UniCredit Bank which was intended to facilitate or fulfil credit clauses for the period from 1 January 2016 to 31 July 2017. In particular, the maximum credit level in relation to the fair value of the real estate was raised from 55 per cent to 85 per cent and net rent income in relation to interest and repayment expenditure must now be at least 100 per cent (previously at least 115 per cent).

The clauses in the credit contract relating to the foreign exchange security strategy, the targeted minimum average rent income and stipulations governing the rent income currency will be suspended until 31 July 2017.

27. ACCRUED AND DEFERRED LIABILITIES

in CHF 1,000	31.12.2016	31.12.2015
Accrued salaries, bonuses and social security benefits	747	93
Other accrued and deferred liabilities	4,584	8,473
Total	**5,331**	**8,566**

28. OTHER LIABILITIES

in CHF 1,000	31.12.2016	31.12.2015
Value-added tax and other indirect tax liabilities	2,425	1,176
Liabilities to the company pension fund [1)]	2,248	3,284
Other liabilities including creditors	1,989	4,717
Liabilities from financial leasing	1,814	1,455
Other	479	0
Total	**8,955**	**10,632**

1) See Note 12, employee pension plan.

Details to liabilities from financial leasing

The liabilities from financial leases are paid over the contractual period and are due at the balance sheet date listed below:

in CHF 1,000	31.12.2016	31.12.2015
Sum of future leasing payments (nominal value)		
Up to one year	220	177
More than one and up to five years	882	707
More than five years	6,614	5,476
Total	**7,716**	**6,360**
Sum of future leasing payments (present value)		
Up to one year	4	2
More than one and up to five years	20	14
More than five years	1,790	1,439
Total	**1,814**	**1,455**

Financial leasing is related to the ground rent for the investment property Petrovsky Fort in St. Petersburg (ENR Russia Invest SA).

29. PROVISIONS

in CHF 1,000	Provision for other business risks	Provision for litigation and tax risks	Other provisions	Total according to balance sheet 2016	Total according to balance sheet 2015
Position at 1 January	1,588	91	0	1,679	3,693
Utilised/released in accordance with designated purpose		-92		-92	-1,400
Newly formed and charged to income statement	318			318	910
Released and credited to income statement	-1,312			-1,312	-219
Discontinued operations (Note 37)				0	-1,102
Foreign exchange translation differences	137	1		138	-203
Position at 31 December	**731**	**0**	**0**	**731**	**1,679**
Maturity of the provisions					
Within one year	173			173	1,316
More than one year	558			558	363

Provisions have decreased from CHF 1.7 million to CHF 0.7 million.

The net reduction can mainly be attributed to the specific use of CHF 0.1 million and liquidation of CHF 1.3 million in favour of the profit-and-loss account, together with new provisions amounting to CHF 0.3 million. Liquidation of provisions which affect income can mainly be attributed to the successful recovery of Valartis Group because provisions made for supervisory processes did not need to be used. Reduction by means of specific use can mainly be attributed to a payment to the Swiss fiscal authorities based on a tax assessment made in the reporting year.

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 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.

In 2016 there were no contingent liabilities as set down in IAS 37 (prior year: nil).

30. SHARE CAPITAL

in CHF	31.12.2016	31.12.2015
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)	23.7	25.0

For the financial year 2016, the Board of Directors proposes to the Shareholders' Meeting to pay a dividend of CHF 0.2 per share (previous year: no dividend).

31. TREASURY SHARES

Position at 1 January 2015	**355,725**
Purchases	0
Sales	-72,567
Position at 31 December 2015	**283,158**
Purchases	0
Sales	-18,670
Position at 31 December 2016	**264,488**

In 2016, no shares were bought and 18,670 shares with a historical average price of CHF 21.65 were sold at an average price of CHF 7.11 each. In 2015, 72,567 shares with a historical average price of CHF 21.65 were sold at CHF 16.09 each. At the balance sheet date, Valartis Group had 264,488 treasury shares at a weighted average acquisition price of CHF 21.65 per share.

All sales were related to bonus share programmes for the employees of Valartis Group.

32. SHAREHOLDER STRUCTURE

in per cent	31.12.2016	31.12.2015
MCG Holding SA, Baar ZG	50.2	50.2
INTEGRAL Stiftung für die berufliche Vorsorge, Thusis GR	<3.0	5.1
Nebag AG, Zurich	3.2	
Gustav Stenbolt	0.9	0.8
Philipp LeibundGut [1)]	0.5	

1) Since 28 June 2016 member of the Board of Directors.

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 SA 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 72.5 per cent of the voting rights (63.5 per cent of the share capital) of MCG Holding SA (partly held through Tidesea Ltd., Baar), b) Philipp LeibundGut, who holds 14.8 per cent of the voting rights (19.7 per cent of the share capital) of MCG Holding SA, and c) Tudor Private Portfolio LLC, Greenwich, USA, which holds 12.2 per cent of the voting rights (16.3 per cent of the share capital) of MCG Holding SA.

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 0.4 per cent of the voting rights (0.6 per cent of the share capital) of MCG Holding SA.

Shares held directly by Gustav Stenbolt and Philipp LeibundGut originate from previous years' Valartis bonus plans for Executive Management and employees.

33. CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS BY CURRENCY

2016 in CHF 1,000	CHF	EUR	USD	Others	Total currencies
Assets					
Cash	1				1
Due from banks	13,648	7,564	3,245	182	24,639
Due from third parties	9,729	8,238	29		17,996
Trading portfolio assets	3,894	234	25,820	1,104	31,052
Financial assets available for sale	19,265	193			19,458
Other assets at fair value	65		397		462
Associated companies	16,940	114			17,054
Property, plant and equipment	189			103	292
Investment property			33,844	1,799	35,643
Accrued and deferred assets	1,519	749	416	103	2,787
Derivative financial instruments	204				204
Other assets	11,374	3,188	3,641	6,769	24,972
Goodwill and other intangible assets				2,292	2,292
Deferred tax claims		536			536
On-balance-sheet assets	**76,828**	**20,816**	**67,392**	**12,352**	**177,388**
Assets classified as held for sale					11,274
Total assets					**188,662**
Claims arising from forex spot and forward trans.					0
Total at 31 December 2016	**76,828**	**20,816**	**67,392**	**12,352**	**188,662**
Liabilities and shareholders' equity					
Due to banks	8,243		23,761		32,004
Other short-term financial liabilities	53	3	7,099		7,155
Derivative financial instruments	0			1,838	1,838
Taxes	492	144			636
Accrued and deferred liabilities	3,639	422	254	1,016	5,331
Other liabilities	5,414	1,270	10	2,261	8,955
Provisions		173		558	731
Deferred tax liabilities	17			1,144	1,161
Shareholders' equity	130,851				130,851
On-balance-sheet liabilities	**148,709**	**2,012**	**31,124**	**6,817**	**188,662**
Liabilities classified as held for sale					0
Total liabilities					**188,662**
Oblig. arising from forex spot and forward trans.			20,246		20,246
Total at 31 December 2016	**148,709**	**2,012**	**51,370**	**6,817**	**208,908**
Net position per currency 31 December 2016	**-71,881**	**18,804**	**16,022**	**5,535**	**-31,520**

2015 in CHF 1,000	CHF	EUR	USD	Others	Total currencies
Assets					
Cash	4				4
Due from banks	16,759	1,980	4,364	381	23,484
Due from third parties	8,485	11,807	662	391	21,345
Trading portfolio assets	6,789	236	14,235	25	21,285
Financial assets available for sale	20,934	194			21,128
Other assets at fair value			2,063		2,063
Associated companies	15,949	401		20,775	37,125
Property, plant and equipment	233			84	317
Investment property			31,713	1,440	33,153
Accrued and deferred assets	1,845	354		119	2,318
Other assets	4,211	1,229	3,549	5,075	14,064
Goodwill and other intangible assets				1,837	1,837
Deferred tax claims				308	308
On-balance-sheet assets	**75,209**	**16,201**	**56,586**	**30,435**	**178,431**
Assets classified as held for sale					2,028,207
Total assets					**2,206,638**
Claims arising from forex spot and forward trans.					0
Total at 31 December 2015	**75,209**	**16,201**	**56,586**	**30,435**	**2,206,638**
Liabilities and shareholders' equity					
Due to banks	6,867		24,079		30,946
Other short-term financial liabilities	2,010	20,373	7,120		29,503
Derivative financial instruments	192			3,548	3,740
Taxes	458				458
Accrued and deferred liabilities	6,397	1,344	3	822	8,566
Other liabilities	7,865	810		1,957	10,632
Provisions	54	1,262		363	1,679
Deferred tax liabilities	87				87
Shareholders’ equity	159,608				159,608
On-balance-sheet liabilities	**183,538**	**23,789**	**31,202**	**6,690**	**245,219**
Liabilities classified as held for sale					1,961,419
Total liabilities					**2,206,638**
Oblig. arising from forex spot and forward trans.			14,965		14,965
Total at 31 December 2015	**183,538**	**23,789**	**46,167**	**6,690**	**2,221,603**
Net position per currency 31 December 2015	**-108,329**	**-7,588**	**10,419**	**23,745**	**-81,753**

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

2016 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	1						1
Due from banks	21,109	3,416			114		24,639
Due from third parties	0		5,317	1,281	11,398		17,996
Trading portfolio assets	31,052						31,052
Financial assets available for sale					19,458		19,458
Other financial assets at fair value				65	397		462
Associated companies						17,054	17,054
Property, plant and equipment			38		254		292
Investment property						35,643	35,643
Accrued and deferred assets	17		601	2,169			2,787
Derivative financial instruments			204				204
Other assets	7		6,762	5,430	12,773		24,972
Goodwill and other intangible assets						2,292	2,292
Deferred tax claims			536				536
Total at 31 December 2016	**52,186**	**3,416**	**13,458**	**8,945**	**44,394**	**54,989**	**177,388**
Liabilities							
Due to banks			1,306	30,698			32,004
Other short-term financial liabilities	3,416		56		3,683		7,155
Derivative financial instruments				1,838			1,838
Taxes			610	26			636
Accrued and deferred liabilities	2,008		247	3,076			5,331
Other liabilities	34		3,558	1,226	2,323	1,814	8,955
Provisions				173	558		731
Deferred tax liabilities					17	1,144	1,161
Total at 31 December 2016	**5,458**	**0**	**5,777**	**37,037**	**6,581**	**2,958**	**57,811**
Contingent liabilities							0
Irrevocable commitments							0
Total at 31 December 2016	**0**	**0**	**0**	**0**	**0**	**0**	**0**

2015 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	4						4
Due from banks	23,158	212			114	0	23,484
Due from third parties	90		5,365	2,569	13,320	1	21,345
Trading portfolio assets	21,285						21,285
Financial assets available for sale				34	21,094		21,128
Other financial assets at fair value					2,063		2,063
Associated companies				4,649	20,775	11,701	37,125
Property, plant and equipment					317		317
Investment property						33,153	33,153
Accrued and deferred assets			766	1,337	126	89	2,318
Other assets	5		5,747	4,764	3,548		14,064
Goodwill and other intangible assets						1,837	1,837
Deferred tax claims					308		308
Total at 31 December 2015	**44,542**	**212**	**11,878**	**13,353**	**61,665**	**46,781**	**178,431**
Liabilities							
Due to banks	24,087	41		6,818			30,946
Other short-term financial liabilities	3,332	0	329	22,076	3,766	0	29,503
Derivative financial instruments	0		191	3,549			3,740
Taxes				458			458
Accrued and deferred liabilities	2,141		1,174	5,251		0	8,566
Other liabilities	4,275		1,175	349	3,378	1,455	10,632
Provisions				1,316	363		1,679
Deferred tax liabilities	87						87
Total at 31 December 2015	**33,922**	**41**	**2,869**	**39,817**	**7,507**	**1,455**	**85,611**
Contingent liabilities							0
Irrevocable commitments							0
Total at 31 December 2015	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

in CHF 1,000	Domestic	Non-domestic	Total
Assets			
Cash	1		1
Due from banks	17,904	6,735	24,639
Due from third parties	30	17,966	17,996
Trading portfolio assets	1,310	29,742	31,052
Financial assets available for sale	19,265	193	19,458
Other financial assets at fair value	65	397	462
Associated companies	16,940	114	17,054
Property, plant and equipment	189	103	292
Investment property		35,643	35,643
Accrued and deferred assets	823	1,964	2,787
Derivative financial instruments	204		204
Other assets	11,374	13,598	24,972
Goodwill and other intangible assets		2,292	2,292
Deferred tax claims		536	536
Total at 31 December 2016	**68,105**	**109,283**	**177,388**
Assets classified as held for sale			11,274
Total assets at 31 December 2016			**188,662**
Total assets at 31 December 2015	**68,379**	**2,138,259**	**2,206,638**
Liabilities and shareholders' equity			
Due to banks	8,243	23,761	32,004
Other short-term financial liabilities	42	7,113	7,155
Derivative financial instruments		1,838	1,838
Taxes	492	144	636
Accrued and deferred liabilities	1,630	3,701	5,331
Other liabilities	5,388	3,567	8,955
Provisions		731	731
Deferred tax liabilities	17	1,144	1,161
Shareholders' equity	130,851		130,851
Total at 31 December 2016	**146,663**	**41,999**	**188,662**
Liabilities classified as held for sale			0
Total liabilities at 31 December 2016			**188,662**
Total liabilities at 31 December 2015	**181,676**	**2,024,962**	**2,206,638**

Classification to domestic and non-domestic is based on where the asset or liability is assigned.

36. NETTING AGREEMENTS

To reduce credit risks related to derivative contracts, repurchase and reverse-repurchase agreements, and securities lending and borrowing agreements, 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	204		204			204
Total 31 December 2016	**204**	**0**	**204**	**0**	**0**	**204**
Derivative financial instruments			0			0
Total 31 December 2015	**0**	**0**	**0**	**0**	**0**	**0**

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			0			0
Total 31 December 2016	**0**	**0**	**0**	**0**	**0**	**0**
Derivative financial instruments	191		191		191	0
Total 31 December 2015	**191**	**0**	**191**	**0**	**191**	**0**

37. SALE OF SUBSIDIARIES AND DISCONTINUED OPERATIONS

Divestment of subsidiaries

Valartis Bank (Austria) AG

On 18 December 2015, Valartis Bank (Austria) AG and Wiener Privatbank SE signed a sales contract governing the takeover of the main business activities of Valartis Bank (Austria) AG, their sole-use real estate and a subsidiary. Closing on the sales transaction took place, as scheduled, on 1 April 2016, following the fulfilment of all the precedent conditions.

Up to this date, the results for the divested banking business and the divested subsidiary, Valartis Asset Management Kapitalanlagegesellschaft mbH, are reported under discontinued operations.

The transaction comprises the following components:

- Assets and liabilities from the banking business were transferred to Wiener Privatbank SE under an asset deal. With the exception of a small number, the employees were also transferred to employment with Wiener Privatbank SE.
- The property in Vienna owned by Valartis Bank (Austria) AG was sold to a real estate company which had been previously founded, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH), under the terms of an asset deal. Valartis Bank (Austria) AG holds 49.9 per cent of shares in the company and Wiener Privatbank SE holds 50.1 per cent of shares. Costs and income are split in accordance with the percentage of the holdings.
- The holding in Valartis Asset Management (Austria) Kapitalanlagegesellschaft m.b.H was sold to Wiener Privatbank SE under the terms of a share deal.

The Valartis Bank (Austria) AG holding in Valartis Asset Management (Austria) Kapitalanlagegesellschaft was 100 per cent.

Valartis Bank (Austria) AG was then merged with the two parent companies in Austria to form Valartis (Austria) GmbH. The few assets and liabilities which were not taken over by the purchaser are reported under continued operations.

Valartis Bank (Liechtenstein) AG

On 29 March 2016, Valartis Finance Holding AG signed a sales contract with Citychamp Watch & Jewellery Group Ltd (Citychamp), Hong Kong, governing the shares of Valartis Bank (Liechtenstein) AG (share purchase agreement). The sale was closed on 20 September 2016.

Citychamp acquired the shares held by Valartis Group (70.04 per cent of capital) plus additional shares from minority holdings.

The following tables show details of the sales transactions closed respectively on 1 April, 2016, in Austria and on 20 September 2016, in Liechtenstein.

Closing of sale banking operations of Valartis Bank (Austria) AG as per 1 April 2016

in CHF 1,000			01.04.2016
Balance sheet at closing date	Sale of assets/liabilities banking business	Sale of real estate	Total
Assets			
Cash and due from banks	168,510		
Due from clients	10,772		
Financial assets available for sale	142,552		
Property, plant and equipment	277	17,453	
Accrued and deferred assets including other assets	3,659		
Total assets	**325,770**	**17,453**	**343,223**
Due to banks	6,260		
Due to clients	319,011		
Accrued and deferred liabilities including other liabilities	589		
Provisions	4,060		
Total liabilities	**329,920**	**0**	**329,920**
Net assets/(liabilities) sold	**-4,150**	**17,453**	**13,303**
Sales price			
Payment to acquirer in cash for settlement of liabilities surplus – not affecting income	-2,228		
Payment to acquirer in cash for settlement of liabilities surplus – affecting income	-1,921		
Additional lump-sum payment to acquirer for purchase of banking operations	-7,630		
Final adjustment of contingent considerations due to the acquirer	-272		
Received from acquirer in cash and cash equivalents		21,800	
Subtotal of payments affecting income/gain from sale of real estate	**-9,823**	**4,347**	**-5,476**
Elimination of not yet realised gain from sale of real estate		-1,732	-1,732
(Loss)/gain from sale 2016 before currency translation difference	**-9,823**	**2,615**	**-7,208**
Transfer of cumulated foreign currency translation difference since 2008 from equity of Valartis Group to income statement			-38,959

Total gain from sale amounts to TCHF -46,167, consistent of the result from sale 2016 of TCHF -7,208 and the transfer of TCHF -38,959 currency translation differences from equity capital to the profit-and-loss statements. The currency translation differences were formerly posted to the equity capital and represents the cumulated currency loss since 2008 on the participation in Valartis Bank (Austria) AG.

Changes in liquid assets from divestment of the banking business and the real estate are made up as follows:

As divestor, Valartis Group received CHF 21.8 million in cash for the real estate from the purchaser and paid the purchaser CHF 11.8 million for the takeover of the banking business (liabilities surplus). Of the divested assets, CHF 168.5 million were liquid assets and receivables from banks from operative banking business. Net outflow in accordance with IFRS thus amounted to CHF 160.7 million.

For transfer of the banking business assets and liabilities, Valartis Bank (Austria) AG paid a lump sum of CHF 7.7 million (EUR 7 million) to Wiener Privatbank SE, plus the balance of the liabilities surplus amounting to CHF 4.2 million. In conclusion, following the adjustment process, it was agreed that a further CHF 0.3 million would be transferred to the purchaser. Valartis Bank (Austria) AG assets and liabilities, plus equity capital which were not transferred remain with Valartis Group.

The real estate was sold to RHS GmbH for EUR 20 million. This generated book profit of CHF 4.4 million. Due to the fact that Valartis Bank (Austria) AG held 49.9 per cent in the purchaser, RHS GmbH, the corresponding amount of book profit (49.9 per cent) can be considered as not yet realised. Accounting principles stipulate that, as yet not realised book profit between Valartis Bank (Austria) AG and RHS GmbH must be eliminated. This elimination must be against the investment in the newly founded RHS GmbH (i.e., against the value of the holding). Due to the fact that the investment in RHS GmbH is lower than the as yet to be realised book profit, elimination of the non-realised book profit will only correspond to the value of the holding in RHS GmbH (see also page 105). This will be reversed following the realised sale. See also Note 45 Events after the balance sheet date.

Out of the transactions which have taken place, EUR 2 million in favour of Valartis Bank (Austria) AG will be held in an escrow account until 1 April 2017, as security against warranties, which is usual for this type of transaction.

Sale of shares Valartis Asset Management Kapitalanlagegesellschaft m.b.H. as per 1 April 2016

in CHF 1,000	01.04.2016
Balance sheet at closing date	Valartis Asset Management Kapitalanlagegesellschaft m.b.H.
Assets	
Cash and due from banks	773
Financial assets available for sale	2,342
Accrued and deferred assets including other assets	90
Liabilities	
Accrued and deferred liabilities including other liabilities	-93
Provisions	-131
Disposal of net assets	**2,982**
Sales price	
whereof in cash and cash equivalents	2,733
Loss from sale of subsidiary before currency translation differences	**-249**
Transfer of cumulated foreign currency translation difference since 2008 from equity of Valartis Group to income statement	-1,130
Loss from sale of subsidiary	**-1,379**
Sales price received in cash and cash equivalents	2,733
Cash and cash equivalents disposed of	-773
Net inflow of funds	**1,960**

Wiener Privatbank SE paid the purchase price of EUR 2.5 million for the shares in Valartis Asset Management Kapitalanlagegesellschaft m.b.H. Out of the sale of the company, after currency translation adjustments out of equity capital, there is a book loss amounting to CHF 1.4 million.

Sale of shares Valartis Bank (Liechtenstein) AG as per 20 September 2016

in CHF 1,000	20.9.2016
Balance sheet at closing date	
Cash and due from banks	1,435,384
Due from clients	97,667
Trading portfolio assets	1,176
Financial assets available for sale	16,165
Other financial assets at fair value	45,750
Property, plant and equipment	22,077
Derivative financial instruments	309
Accrued and deferred assets including other assets	9,308
Goodwill and other intangible assets	6,986
Total assets	**1,634,822**
Due to banks	-2,497
Due to clients	-1,518,196
Derivative financial instruments	-282
Accrued and deferred liabilities including other liabilities	-11,996
Issued debt instruments	-10,942
Provisions	-821
Total liabilities	**-1,544,734**
Disposal of net assets	**90,088**
whereof non-controlling interests	-26,519
Gain from sale of subsidiaries	18,834
Sales price	**82,403**
whereof in cash and cash equivalents	73,295
whereof as contingent considerations	9,108
Total sales price	**82,403**

As at the date of sale, the balance sum comprises the consolidated balance sheet value of Valartis Bank (Liechtenstein) AG and subsidiaries.

The sales contract agreed division of the purchase price in several tranches. Upon signing of the contract, 10 per cent of the purchase price was paid into an escrow account. On 20 September 2016, CHF 71.0 million were transferred to Valartis Group by the purchaser. In December 2016, a further payment of CHF 2.2 million was paid out of the escrow account to Valartis Group. The remaining, deferred sales price receivable of CHF 9.1 million, as at balance sheet date, comprises a share of the sales price of CHF 5.0 million (closing account) and the remaining escrow account of CHF 4.1 million. CHF 5.0 million were transferred following the balance sheet date in January, 2017. The escrow account amounting to CHF 4.1 million will be transferred to Valartis Group in December 2017, as long as the purchaser does not make any warranty claims in connection with the sales contract by that time.

The sales price of CHF 82.4 million minus divested operational liquid assets and receivables from banks from the banking business of Valartis Bank (Liechtenstein) AG, gives rise to an accounting net outflow of CHF -780.6 million.

Results from discontinued operations

Discontinued operations comprise the following:

Valartis Bank (Austria) AG banking business, incl. the subsidiary, Valartis Asset Management Kapitalanlagegesellschaft m.b.H.

For 2016, results are allocated to discontinued operations up to closing on the sales contract on 1 April 2016 (previous year: entire calendar year). The sale of the Austrian banking business, not including a currency translation adjustment, resulted for Valartis Group in a book loss of CHF 2.4 million and CHF 42.5 million including the currency translation adjustment. In FY 2016, no new impairments for fair-value revaluation less divestment costs were recorded (previous year: CHF 1.2 million).

Valartis Bank (Liechtenstein) AG, incl. subsidiaries

Results for discontinued operations include the profit and loss positions for the Liechtenstein-based private banking group from 1 January 2016, up to its elimination from the scope of consolidation on 20 September 2016 (previous year: entire calendar year).

Divestment of the private banking business in Liechtenstein resulted in a book profit of CHF 18.8 million for Valartis Group. No new impairments for fair-value revaluation less divestment costs were recorded in FY 2016, or in the previous year.

Associated company Darsi Group

Valartis Group has signed a share purchase agreement (SPA) governing divestment of the minority holding in Darsi Group. Results for the associated company, Darsi Group, are therefore reported under discontinued operations in the 2016 Annual Report. The corresponding adjustments have been made to the previous year's reporting.

The book value of the associated company Darsi Group was determined and compared with the projected income from the sale. The need for value adjustment of CHF 11.7 million was identified and posted.

Associated company Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH)

During divestment of the Valartis Bank (Austria) AG banking business, the former Valartis Bank (Austria) AG's property in Vienna was sold to a joint venture set up with Wiener Privatbank SE. Valartis Group holds 49.9 per cent of RHS GmbH. The intention of both parties was divestment of either the property, or the shares in RHS GmbH, to a third party.

On 16 December 2016, a sales contract governing the sale of shares held by Valartis Group in RHS GmbH to a third party was signed. Closing of the contract took place, after the balance sheet date, on 2 January 2017.

For that reason, the associated company, RHS GmbH, is also reported in the Annual Report 2016 as a discontinued operation. Adjustment to the previous year's reporting is unnecessary due to the fact that the company was first founded in 2016.

Following the sale of the Valartis Bank (Austria) AG real estate to RHS GmbH, the book value on the associated company had to be completely value-adjusted. IFRS accounting principles stipulate that as yet not realised book profit between Valartis Bank (Austria) AG and associated company, RHS GmbH, must be eliminated. This will be reversed following the realised sale to a third party.

For that reason, as at 1 April 2016, the book value on the holding in RHS GmbH amounting to CHF 2.2 million was completely value-adjusted. As at 31 December, 2016, the book value of the associated company, RHS GmbH, amounted to CHF 1.7 million, after posting of the 2016 operating result prior to value adjustments. The value was therefore adjusted from CHF 2.2 million to CHF 1.7 million. As at 31 December 2016, after value adjustment, the book value therefore amounts to an unchanged CHF 0. Elimination of this value adjustment and, thus, realisation of the book profit from the sale of the real estate, will take place following closing on the sale of the shares.

Income statement, statement of comprehensive income and cash flow of discontinued operations (GB)

in CHF 1,000				2016				2015
Income statement of discontinued operations	**GB Austria**	**GB Liech-tenstein**	**Associated companies**	**Total**	**GB Austria**	**GB Liech-tenstein**	**Associated companies**	**Total**
Operating income	-4,725	49,051	1,958	46,284	11,205	47,527	-4,866	53,866
Administrative expense	-2,368	-22,622	-	-24,990	-13,094	-25,271	-	-38,365
Gross income	**-7,093**	**26,429**	**1,958**	**21,294**	**-1,889**	**22,256**	**-4,866**	**15,501**
(Loss) from transfer of cumulated foreign currency translation differences formerly booked in equity	-40,089	-65		-40,154				
Depreciation/amortisation of property, plant and equipment and intangible assets				0	-1,436	-1,755		-3,191
Valuation adjustments, provisions and losses		-146		-146	-12,077	-933		-13,010
Impairment loss recognised on the remeasurement to fair value less costs to disposal			-11,724	-11,724	-1,175			-1,175
Net (loss)/profit from discontinued operations before tax	**-47,182**	**26,218**	**-9,766**	**-30,730**	**-16,577**	**19,568**	**-4,866**	**-1,875**
Income taxes	4,657	-44		4,613	-4,071	-2,336		-6,407
Income tax effects from measurement to fair value less cost to distribute (deferred tax)				0	294			294
Net loss/profit from discontinued operations	**-42,525**	**26,174**	**-9,766**	**-26,117**	**-20,354**	**17,232**	**-4,866**	**-7,988**
whereof (loss) from transfer of cumulated foreign currency translation differences formerly booked in equity	-40,089	-65		-40,154				0
whereof result of discontinued operations before transfer of cumulated foreign currency differences	-2,436	26,239	-9,766	14,037				0
Other comprehensive income of discontinued operations								
Unrealised gains/(losses) from financial assets available for sale	13	-101		-88	-252	-99		-351
Remeasurement of defined benefit plans				-	-158			-158
Foreign exchange translation difference	40,089	65	-179	39,975	-7,296		-2,828	-10,124
Total recognised in other comprehensive income	**40,102**	**65**	**-179**	**39,988**	**-7,706**	**-99**	**-2,828**	**-10,633**
Cash flow from discontinued operations								
Cash flow from operating activities	-11,276	-329,822		-341,098	-78,575	186,570	-	107,995
Cash flow from investment activities	-100	160,539		160,439	-61,668	-251,593	-	-313,261
Cash flow from financing activities						-6,496	-	-6,496
Net cash flow	**-11,376**	**-169,283**		**-180,659**	**-140,243**	**-71,519**	**-**	**-211,762**

Valartis Group acquired Valartis Bank (Austria) AG in December 2008 at the then EUR/CHF exchange rate of 1.49. At the time of divestment of the banking business, translation of the balance sheet position from EUR into the corporate currency CHF, as a result of the falling value of the EUR, was posted as a Group-level reduction in equity capital in the currency translation position. IFRS accounting standards stipulate that these accumulated currency translations must be reposted out of the Group's equity capital, into the profit and loss account, upon divestment. This results in a loss of CHF 40.1 million for Valartis Group as at 31 December 2016, as shown in the above tables. This also applies for the elimination of the Liechtenstein-based private banking group, although with a loss of TCHF 65. This reposting has no effect on Valartis Group's consolidated equity capital level.

Income from associated companies posted in the profit and loss account for discontinued operations totalling TCHF 1,958 (previous year: TCHF -4,866), is made up of profit from Darsi Group amounting to TCHF 2'403 (previous year: TCHF -4,866) and the proportional income from RHS GmbH, amounting to TCHF -445. Impairment expenditure amounting to around TCHF -11,724 can be attributed to Darsi Group. Value adjustment on RHS GmbH amounting to CHF 1.7 million is posted as elimination of non-realised book profit in business segment Austria.

Assets and liabilities classified as held for sale

in CHF 1,000		31.12.2016			31.12.2015
Assets classified as held for sale	**Associated companies**	**Total 2016**	**GB Austria**	**GB Liechtenstein**	**Total 2015**
Cash and balances with central banks		0	92,046	817,882	909,928
Due from banks		0	87,363	252,241	339,604
Due from clients		0	12,200	130,734	142,934
Trading portfolio assets		0		3,417	3,417
Financial assets available for sale		0	164,309	202,880	367,189
Financial assets held to maturity		0	1,091	206,433	207,524
Associated companies	11,274	11,274			0
Property, plant and equipment		0	17,607	21,895	39,502
Accrued and deferred assets		0	528	4,773	5,301
Derivative financial instruments		0	10	1,053	1,063
Other assets		0	2,363	2,237	4,600
Goodwill and other intangible assets		0	159	6,986	7,145
Total assets classified as held for sale	**11,274**	**11,274**	**377,676**	**1,650,531**	**2,028,207**
Liabilities directly associated with the assets classified as held for sale					
Due to banks		0	5,179	583	5,762
Other short-term financial liabilities		0	337,664	1,582,901	1,920,565
Derivative financial instruments		0		991	991
Current income taxes		0		3,021	3,021
Accrued and deferred liabilities		0	1,753	6,165	7,918
Other liabilities		0	1,003	1,863	2,866
Issued debt instruments		0		10,830	10,830
Provisions		0	1,207	812	2,019
Deferred tax liabilities		0	4,544	2,903	7,447
Total liabilities directly associated with the assets classified as held for sale	**0**	**0**	**351,350**	**1,610,069**	**1,961,419**
Net assets/(liabilities)		**11,274**			**66,788**

Valuation

The book value of the associated companies amounting to TCHF 11,274 as at 31 December 2016, is attributed to Darsi Group. RHS GmbH is posted at a book value of TCHF 0.

Immediately prior to classification as discontinued operations in FY 2015, the book values of the assets and liabilities were determined in accordance with the appropriate IFRS.

In 2015, necessary impairment was determined for business segment Austria, which was posted to the 2015 operating results. Intangible assets amounting to CHF 9.6 million and goodwill of CHF 2.4 million were completely value-adjusted. A reported latent tax receivable amounting to CHF 6.1 million was written off. Following signing of the sales contract, book values on assets and liabilities for discontinued operation Austria were compared as a total against the projected income from the sale, minus the costs arising out of the sale. This comparison resulted in a further need for impairment of TCHF 1,175 before taxes (TCHF 825 after taxes). The impairment was posted pro rata to the investment assets for business segment Austria in 2015.

For business segment Liechtenstein, no need for impairment was determined either prior to classification as a discontinued operation, or upon a comparison against the projected income from the sale.

38. 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.

The following table provides an overview of transactions with related parties (persons and entities).

in CHF 1,000	31.12.2016	31.12.2015
Assets		
Key management and relatives		9
Associated companies	19,247	23,806
Other related entities	173	10
Total	**19,420**	**23,825**
Liabilities		
Key management and relatives		376
Own pension fund		168
Associated companies	6,926	12,349
Other related entities		212
Total	**6,926**	**13,105**
Expenses		
Key management and relatives		-671
Key management and relatives	-4,244	
Associated companies	-135	-152
Total	**-4,379**	**-823**
Income		
Key management and relatives		17
Associated companies	779	929
Other related entities	1,785	1,263
Total	**2,564**	**2,209**

Valartis International Ltd., an entity of Valartis Group, performs certain investment management functions for EPH. Receivables and income from these activities are included in the table above in the category "Other related parties".

39. LOANS AND EQUITY HOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT AT YEAR-END

2016 Members of the Board of Directors	Gustav Stenbolt, Chairman	Christoph N. Meister, Vice-chairman	Philipp LeibundGut, Member [1]	Total
Numbers of shares	1,862,733	4,821	395,565	2,263,119
Numbers of shares (allotted) [2]	4,179		1,194	5,373
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

Executive Management	Stephan Häberle, CEO	George M. Isliker, CFO/CRO		Total
Numbers of shares		13,494		13,494
Numbers of shares (allotted) [2]		1,791		1,791
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

1) Since 27 June 2016.
2) Allotted shares means shares which have been granted to members of Group Executive Management as bonus component of current year or in prior years, but which have not yet been reached the vesting date.

2015 Members of the Board of Directors	Gustav Stenbolt, Chairman	Christoph N. Meister, Vice chairman		Total
Numbers of shares	1,858,623	4,821		1,863,444
Numbers of shares (allotted) [2]	8,289			8,289
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

Executive Management	Stephan Häberle, CEO	George M. Isliker, CFO/CRO		Total
Numbers of shares		9,971		9,971
Numbers of shares (allotted)		5,314		5,314
Loans and advances in CHF				0
Loans and advances in CHF to related parties				0

2) Allotted shares means shares which have been granted to members of Executive Management as bonus component of current year or in prior year, but which have not yet been reached the vesting date.

40. BUSINESS SEGMENTS

Following divestment of banking activities in Liechtenstein and in Austria, the former business segment "Private Clients" has been eliminated. Business activities and holdings which are amalgamated in the segment "Institutional Clients" remain in place. Due to the reduced size and the current organisational structure, there is now only one management level, an executive decision-making body, for managing the current holdings – the delegate of the Board of Directors (CEO). Within the framework of the new business activities, the Corporate Centre segment, as a business component, no longer generates its own income from Asset Liability Management (exchange rate income, earnings on a bonds portfolio, etc.). Valartis Group, thus, now only has a single segment and reporting will be in accordance with IFRS 8 and will only cover that one business component.

As of 31 December 2016, Group external segment reporting will be based on internal reporting. Valartis Group produces a monthly management report containing consolidated financial information for Executive Management and a quarterly report for the Board of Directors. Evaluation of the information is based on the same principles which apply to the consolidated financial statement. Executive Management review the consolidated financial information and use it as a basis for management decisions on implementation of overall strategy.

Valartis Executive Management comprises the Delegate of the Board of Directors (CEO) and the Chief Financial & Risk Officer.

The following information on geographic areas is listed in accordance with the domicile of the reporting component. This geographic information does not reflect the management structure of the Group.

Information on regions

in CHF 1,000	31.12.2016			31.12.2015		
	Domestic	Non-domestic	Total	Domestic	Non-domestic	Total
Operating income	-386	17,079	16,693	-2,843	-14,346	-17,189
Total assets	60,083	117,305	177,388	68,379	110,052	178,431
Total investments continued operations	0	49	49	91		91

Reporting is based on operating locations.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

in CHF 1,000	31.12.2016			31.12.2015		
	Book value	Fair value	Deviation	Book value	Fair value	Deviation
Assets						
Cash	1	1		4	4	
Due from banks	24,639	24,639		23,484	23,484	
Due from third parties	17,996	17,996		21,345	21,508	163
Accrued and deferred assets	2,787	2,787		2,318	2,318	
Other assets	24,972	24,972		14,064	14,064	
Financial assets at amortised costs	**70,395**	**70,395**	**0**	**61,215**	**61,378**	**163**
Trading portfolio assets	31,052	31,052		21,285	21,285	
Financial assets available for sale	19,458	19,458		21,128	21,128	
Derivative financial instruments	204	204		0	0	
Other financial assets at fair value	462	462		2,063	2,063	
Financial assets at fair value	**51,176**	**51,176**	**0**	**44,476**	**44,476**	**0**
Liabilities						
Due to banks	32,004	32,004		30,946	30,946	
Other short-term financial liabilities	7,155	7,155		29,503	29,503	
Accrued and deferred liabilities	5,331	5,331		8,566	8,566	
Other liabilities	8,955	8,955		10,632	10,632	
Financial liabilities at amortised costs	**53,445**	**53,445**	**0**	**79,647**	**79,647**	**0**
Derivative financial instruments	1,838	1,838		3,740	3,740	
Financial liabilities at fair value	**1,838**	**1,838**	**0**	**3,740**	**3,740**	**0**

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

Valuation methods of financial instruments

2016 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)	31.12.2016
Assets				
Trading portfolio assets	25,679	234	5,139	31,052
Financial assets available for sale			19,458	19,458
Other financial assets at fair value			462	462
Derivative financial instruments		204		204
Investment property			33,805	33,805
Embedded derivative on investment property			1,838	1,838
Total investment property			35,643	35,643
Assets at fair value	**25,679**	**438**	**60,702**	**86,819**
Liabilities				
Derivative financial instruments			1,838	1,838
Total financial liabilities at fair value	**0**	**0**	**1,838**	**1,838**

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 the current period under review, no positions were reclassified.

2015 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)	31.12.2015
Assets				
Trading portfolio assets	15,470	236	5,579	21,285
Financial assets available for sale			21,128	21,128
Other financial assets at fair value			2,063	2,063
Investment property			29,606	29,606
Embedded derivative on investment property			3,547	3,547
Total investment property			33,153	33,153
Assets at fair value	**15,470**	**236**	**61,923**	**77,629**
Liabilities				
Derivative financial instruments		193	3,547	3,740
Total financial liabilities at fair value	**0**	**193**	**3,547**	**3,740**

2016 in CHF 1,000	01.01.2016	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2016
Trading portfolio assets	5,579	-440					5,139
Financial assets available for sale	21,128		-1,670				19,458
Other financial assets at fair value	2,063		-834			-767	462
Investment property (excl. embedded derivative)	29,606	-2,543	6,975			-233	33,805
Embedded derivative on investment property	3,547	-2,287	578				1,838
Total assets at fair value (level 3)	**61,923**	**-5,270**	**5,049**	**0**	**0**	**-1,000**	**60,702**
Derivative financial instruments	3,547	-2,287	578				1,838
Total financial liabilities at fair value (level 3)	**3,547**	**-2,287**	**578**	**0**	**0**	**0**	**1,838**

2015 in CHF 1,000	01.01.2015	Recognised in the income statement [1]	Net income recognised in shareholders' equity [2]	Transfer from level 1 and level 2	Purchase	Sales	31.12.2015
Trading portfolio assets	6,308	-693			88	-124	5,579
Financial assets available for sale continued operations	20,784		344				21,128
Other financial assets at fair value	7,732	-5,150				-519	2,063
Investment property (excl. embedded derivative)	42,722	-5,327	-7,918		129		29,606
Embedded derivative on investment property	2,945	1,422	-820				3,547
Total assets at fair value (level 3)	**80,491**	**-9,748**	**-8,394**	**0**	**217**	**-643**	**61,923**
Derivative financial instruments	2,945	1,422	-820				3,547
Total financial liabilities at fair value (level 3)	**2,945**	**1,422**	**-820**	**0**	**0**	**0**	**3,547**

1) The unrealised trading loss recorded in the income statement for trading portfolio held at year-end amounts to TCHF -427 (previous year TCHF -600) and the unrealised loss of other financial assets at fair value to TCHF -1,424 (previous year: TCHF -5,150).

2) The unrealised gain on financial assets available for sale held at year-end recorded in shareholder equity amounts to TCHF -1,670 (previous year's unrealised gain TCHF 344).

Unobservable inputs

To evaluate the trading portfolio and financial investments held as "available for sale" under level 3, the closure documents for the individual titles and individual transactions which are observable in the market are used.

As at the balance sheet date, financial instruments classified as "Available for sale" mainly comprise the holding in Athris Holding AG, whose shares are traded sporadically on the OTC platform of Berner Kantonalbank (book value as at 31 December, 2016: CHF 19.3 million; previous year: CHF 20.9 million).

Trading in these shares is not liquid. The company is dominated by a majority shareholder and makes financial information on the past year available to shareholders on an annual basis, in the second quarter of the year.

Trading prices show a markdown against the company's disclosed equity capital. This markdown is generally within a range of between 10 to 15 per cent, which is not unusual for minority holdings of this type. The fair value on Athris shares on the balance sheet date, 31 December 2016, (same procedure as the previous year) is based on the trading prices on the OTC platform and includes the assumption that the markdown against the company's equity capital value is within the above-mentioned range. Following presentation of the financial information, retroactive reviews are carried out as to whether these valuation assumptions remain correct. Should the markdown rise significantly, the evaluation approach for the following year would be adjusted. An increase, or decrease of the markdown of 5 per cent, would lead to value adjustments of around +/- CHF 1.2 million (previous year: +/- CHF 1.1 million) on the Athris holding which is posted as a financial instrument held as Available for Sale.

The contingent residual purchase price payment from the sale of Eastern Property Holdings Ltd. (EPH) amounting to TCHF 398 (previous year: TCHF 2,063) is recognised as other financial assets at fair value under level 3. The amount of this contingent residual purchase price payment is dependent on the successful completion and sale of a real estate project. Evaluation of the contingent residual purchase price payment is based on an estimate of the real estate project by an external, independent specialist and an additional estimate by management.

An increase of one per cent (a decrease) in the value of the underlying assets would lead to a rise (a decline) in the contingent residual purchase price payment of TCHF 3.

Significant, unobservable inputs in the evaluation of the investment property and the embedded derivatives

	31.12.2016	31.12.2015
Investment property; estimated rental value		
Rental value per square metre (in USD/m^2)	185	170
Vacancy rate	10.0%	10.0%
Equivalent yield	12.5%	12.5%
Embedded derivative on investment property; Black-Scholes		
Range of USD/ruble exchange rate corridor in lease contracts [1)]	USD/ruble 54.59–66.72	USD/ruble 65.59–80.17

1) Disclosed USD/ruble corridor represents the maximum range of the corridors individually included in the leasing contracts.

Effects of changes in input parameters on fair value

The fair value of the investment real estate arising out of a rise, or fall, in the rental price per m² is listed in the following tables. The fair value of the investment real estate was USD 31,410,000 as at 31 December 2016 and USD 28,360,000 as at 31 December 2015.

2016		2015	
Rental income per year in USD/m² (net after VAT)	Fair Value	Rental income per year in USD/m² (net after VAT)	Fair Value
USD	**USD**	**USD**	**USD**
195	32,680,000	180	29,600,000
190	32,040,000	175	28,980,000
185	31,410,000	170	28,360,000
180	30,770,000	165	27,740,000
175	30,140,000	160	27,120,000

An increase from 10 per cent to 15 per cent in the vacancy rate would result in a reduction of the fair value on the real estate from USD 31.4 million to USD 29.9 million (previous year: reduction in fair value from USD 28.4 million to USD 27.0 million).

A rise, or decrease of around 10 per cent in the USD/ruble corridor in the rent contracts would result in a change in value of CHF 0.5 million (rubles 27.7 million) (previous year: CHF 0.7 million or rubles 51.3 million).

42. MAJOR GROUP COMPANIES

In addition to the financial results for Valartis Group AG, Baar, canton of Zug, Switzerland, the consolidated financial statements include the accounts of the following major companies:

Fully consolidated entities

Name	Domicile	Purpose	Currency	Share capital	Participation in per cent 31.12.2016	Participation in per cent 31.12.2015
Valartis International Ltd.	Tortola, BVI	Investment Advisor	USD	20,000,000	100.00	100.00
ENR Russia Invest SA (Group)	Geneva, CH	Investment Company	CHF	32,790,585	62.26	62.26
ENR Investment Ltd.	Limassol, CY	Investment Company	EUR	6,576,660	62.26	62.26
ENR Private Equity Ltd.	Grand Cayman, Cayman Islands	Investment Company	USD	500	62.26	62.26
Stainfield Ltd.	Limassol, CY	Holding Company	EUR	3,420	62.26	62.26
ENR Development LLC	Moscow, RU	Real estate project Company	RUB	15,535,100	62.26	62.26
Petrovsky Fort LLC	Moscow, RU	Real estate Company	RUB	18,000	62.26	62.26
Romsay Properties Ltd.	Limassol, CY	Holding Company	EUR	1,710	62.26	62.26
Parking Clé de Rive SA	Geneva, CH	Real estate project Company	CHF	148,500	51.00	100.00
Valartis Finance Holding AG	Vaduz, FL	Holding Company	CHF	20,000,000	100.00	100.00
Valartis AG	Baar, CH	Holding Company	CHF	100,000	100.00	100.00
Valartis (Austria) GmbH	Vienna, AT	Holding Company	EUR	1,000,000	100.00	100.00
MCT Luxembourg Management S.à.r.l.	Luxembourg, L	Investment Advisor	EUR	12,085	100.00	100.00
Valartis Strategic Investments S.à.r.l.	Luxembourg, L	Holding Company	EUR	100,000	100.00	100.00
Valartis Advisory Services SA	Geneva, CH	Investment-Advisory- and Corporate-Center-functions	CHF	1,896,210	100.00	100.00

Associated companies

Name	Domicile	Purpose	Currency	Sharecapital	Participation in per cent 31 December 2016	Participation in per cent 31 December 2015
Norinvest Holding SA	Geneva, CH	Holding Company	CHF	25,689,000	25.00	25.00
Darsi Investment Ltd.	Tortola, BVI	Real estate project Company	EUR	7,476,190	32.44	32.44
Société des Centres Commerciaux d'Algérie SPA	Algiers, DZ	Real estate Company	DZD	1,703,333,000	20.00	20.00
Gebäudebesitz Rathausstrasse 20 GmbH	Vienna, AT	Real estate Company	EUR	35,000	49.90	
Panariello Enterprises Ltd.	Nicosia, CY	Investment Company	EUR	25,650	49.00	49.00

Sold or merged participations

Valartis Bank (Liechtenstein) AG	Bendern, FL	Bank	CHF		sold	70.04
Valartis Bank (Austria) AG	Vienna, AT	Bank	EUR		merged [1)]	100.00
Valartis Asset Management Kapitalanlagegesellschaft m.b.H.	Vienna, AT	Investment Advisor	EUR		sold	100.00
Valartis (Wien) GmbH	Vienna, AT	Holding Company	EUR		merged [1)]	100.00

1) After the sale of the banking business Austria (asset deal), Valartis Bank (Austria) AG has been merged with Valartis (Austria) GmbH and Valartis (Wien) GmbH.

43. SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Restriction on the use of assets

The use of assets for 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.

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	Parking Clé de Rive SA	Valartis Bank (Liechtenstein) Group	ENR Russia Invest SA	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Share of non-controlling interests in per cent				
Participation	49.00%	29.96%	37.74%	37.74%
Voting rights	49.00%	11.03%	37.74%	37.74%
Total asset	820	1,695,466	81,723	76,965
Total liabilities	22	1,612,686	35,576	34,786
Net asset	798	82,780	46,147	42,179
Carrying amount of non-controlling interests	**390**	**25,341**	**18,085**	**16,587**
Operating income		47,527	11,516	-12,842
Profit/loss	-98	18,487	5,810	-17,830
Other comprehensive income		-104	-1,842	1,393
Total comprehensive income	**-98**	**18,383**	**3,968**	**-16,437**
(Loss)/profit allocated to non-controlling interests	-48	5,539	2,193	-6,729
Other comprehensive income allocated to non-controlling interests		-31	-695	525
Cash flow from operating activities	-381	186,570	-5,414	4,800
Cash flow investing from investment activities	4	-251,593		
Cash flow from financing activity	1,000	-6,496	-2,225	-35,977
Foreign currency translation effects	-3		-684	-1,434
Net cash flow	**620**	**-71,519**	**-8,323**	**-32,611**
Paid dividends to non-controlling interests				11,174

In this note, the non-controlling interest in Valartis Bank (Liechtenstein) AG is only disclosed up to 31 December 2015. Divestment of the private banking business in Liechtenstein, in 2016, is disclosed in Note 37, Sales transactions and discontinued operations.

In 2016, 49 per cent of shares in the company Parking Clé de Rive SA, in Geneva, were sold to a group of investors. The non-controlling interest is, therefore, disclosed in this note as of FY 2016.

The table on the next page 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 2015	ENR Russia Invest SA 2015
Non-controlling interests at 1 January 2015	**20,331**	**33,761**
Gains/losses from financial assets available for sale	-30	1
Foreign exchange translation differences	-1	524
Other comprehensive Income	**-31**	**525**
Net profit/(loss)	5,539	-6,729
Total comprehensive income	**5,508**	**-6,204**
Dividend payments		-11,174
Other effects	-705	204
Owner-related changes	**-705**	**-10,970**
Total non-controlling interests at 31 December 2015	**25,134**	**16,587**

in CHF 1,000	Parking Clé de Rive SA 2016	ENR Russia Invest SA 2016
Non-controlling interests at 1 January 2016	**0**	**16,587**
Gains/losses from financial assets available for sale	0	0
Foreign exchange translation differences	0	-695
Other comprehensive income	**0**	**-695**
Net (loss)/profit	-48	2,193
Total comprehensive income	**-48**	**1,498**
Transaction with non-controlling interests	-51	0
Increase in capital	490	0
Other effects	438	0
Owner-related changes	**438**	**0**
Total non-controlling interests at 31 December 2016	**390**	**18,085**

44. STRUCTURED ENTITIES

As an active asset manager, Valartis Group manages 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. The properties held by the fund were sold at a profit towards the end of 2013, and the fund is currently in the process of liquidation.

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.

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 2016 financial year totalled CHF 0.2 million for continued operations (prior year: CHF 0.4 million). Units from self-managed funds held by Valartis Group are recognised as financial instruments.

in CHF 1,000	Trading portfolio assets 1)	Trading portfolio assets 1)
	2016	2015
Carrying amount 1 January	**271**	**3,490**
Discontinued operations		-1,996
Purchase		0
Sales		-1,109
Recognised in the income statement	-3	-114
Total as at 31 December	**268**	**271**

1) The income recognised in income statement is disclosed as income

45. EVENTS AFTER THE BALANCE SHEET DATE

On 2 January 2017, closing took place on the sale of shares held by Valartis (Austria) GmbH in the associated company, Gebäudebesitz Rathausstrasse 20 GmbH (RHS GmbH), in Vienna for EUR 4.8 million (see also Note 37, Discontinued operations). The purchase price was paid to Valartis Group in March 2017.

The outstanding closing account amounting to CHF 5 million from Citychamp Watch & Jewellery Group Ltd. was transferred to Valartis Group on 4 January 2017 (see also Note 23).

CHF 2.1 million from divestment of the Austrian banking business, held in an escrow account, was received by Valartis Group at end-March 2017.

At beginning of April 2017, a share purchase agreement (SPA) has been signed governing divestment of the minority holding in Darsi Group. Valartis Group sells its shares from Société des Centres Commerciaux d'Algérie SPA (SCCA) in Algeria to another existing investor. Results for the associated company, Darsi Group, are therefore reported under discontinued operations in the 2016 Annual Report.

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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To the General Meeting of
Valartis Group AG, Baar

Zurich, 3 April 2017

Statutory auditor's report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Valartis Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of comprehensive income and losses, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 39 to 121) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Valuation of the investment property "Petrovsky Fort"

Area of focus	The investment property, Petrovsky Fort, an office center in St. Petersburg, Russia, represents 18.9% of the total assets in the consolidated financial statements of Valartis Group AG as of 31 December 2016 and is valued at fair value for an amount of CHF 35.6 million. The initial recognition of an investment property is measured at historical procurement and production costs. Subsequent measurement follows the fair value option. Petrovsky Fort's fair value is determined by an independent real estate valuation expert, using multiple assumptions (e.g. rental rate or macroeconomic factors) which contain room for discretion. Given the complexity of the assumptions used in the valuation of the investment property and the significance of the balance sheet item in the financial statements of Valartis Group AG, its valuation is of particular importance from an audit perspective. The accounting principles applied are explained on page 58 and further explanation is available in notes 4, 20 and 41 in the annual report of Valartis Group AG.
Our audit response	We evaluated the objectivity, independence and expertise of the independent real estate valuation expert. We evaluated the information and assumptions used in the valuations by comparing them with external sources. This includes the estimates such as market rent levels, expected vacancy, interest rates and expected maintenance. We assessed the valuation method used and analysed the calculations performed by management. In addition we used the expertise of our own internal property valuation experts. These specialists have supported us with our assessment of the assumptions, methods and developments in the valuation. We further focused on the adequacy of the disclosures on the valuation of investment property.

Other information in the annual report
The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the 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

Stefan M. Schmid	Alain Münger
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

INCOME STATEMENT OF VALARTIS GROUP AG

Income

in CHF	Note	1.1.–31.12.2016	1.1.–31.12.2015
Dividend income	3.1	4,200,000	4,106,272
Other financial income	3.2	3,027,444	714,706
Other operating income	3.3	493,493	327,235
Total operating income		**7,720,937**	**5,148,213**

Expenses

Personnel expense	3.4	-5,519	354,585
Other operating expense	3.5	-3,759,895	-5,564,642
Reversal of impairment/impairment losses on financial assets and participations	3.6	14,618,000	-74,849,576
Financial expense	3.7	-3,372,653	-7,701,555
Result before extraordinary or prior period income/expenses and tax		**15,263,870**	**-82,612,975**
Extraordinary or prior period income	3.8	416,110	1,269,807
Extraordinary or prior period expense	3.9	-117,723	-4,697,792
Profit/(loss) for the year before tax		**15,562,257**	**-86,040,960**
Income tax		0	0
Net profit/(loss) for the year		**15,562,257**	**-86,040,960**

STATEMENT OF FINANCIAL POSITION OF VALARTIS GROUP AG

Assets

in CHF	Note	31.12.2016	31.12.2015
Current assets			
Due from banks		1,633,179	3,748,676
Other short-term receivables	4.1	2,897,106	25,260,713
Prepaid expenses and accrued income		121,586	277,698
Total current assets		**4,651,871**	**29,287,087**
Non-current assets			
Financial assets	4.2	4,666,920	7,591,296
Participations	4.3	129,957,671	115,276,671
Total non-current assets		**134,624,591**	**122,867,967**
Total assets		**139,276,462**	**152,155,054**

Liabilities and shareholders' equity

Short-term liabilities			
Trade account payables	4.4	324,998	743,205
Short-term interest-bearing liabilities	4.5	5,300,000	53,056,791
Other short-term liabilities	4.6	792,426	7,788,488
Accrued expenses and deferred income		2,084,510	4,502,088
Total short-term liabilities		**8,501,934**	**66,090,572**
Long-term liabilities			
Long-term interest-bearing liabilities	4.7	27,122,380	0
Other long-term liabilities	4.8	2,025,409	0
Total long-term liabilities		**29,147,789**	**0**
Shareholders' equity			
Share capital	4.9	5,000,000	5,000,000
Legal retained earnings			
General legal retained earnings		1,000,000	1,000,000
Reserves for treasury shares	4.10	5,223,676	5,627,870
Voluntary retained earnings			
General voluntary retained earnings		26,631,267	26,227,073
Profit brought forward		48,711,870	134,752,830
Profit/(loss) for the year		15,562,257	-86,040,960
Treasury shares	4.10	-502,331	-502,331
Total shareholders' equity		**101,626,739**	**86,064,482**
Total liabilities and shareholders' equity		**139,276,462**	**152,155,054**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Name and domicile
Valartis Group AG, Blegistrasse 11a, 6340 Baar
Business Identification Number (BIN) CHE-101.833.144

Number of full-time employees
There were no full-time employees working for the company in financial year 2016 (previous year: none).

2. ACCOUNTING PRINCIPLES

General information on accounting principles
This annual financial statement has been prepared in accordance with the provisions of Swiss Accounting Law (Section 32, Swiss Code of Obligations). The main valuation principles which are not stipulated by law are listed below.

Holdings
Holdings are reported at the purchase value minus any necessary value adjustments.

Share-based payment
Expenditure on Valartis Group AG shares which have been allocated to members of Executive Management within the framework of a bonus payment will be charged to "Personnel expenditure" pro rata temporis over the length of the vesting period. Up to transfer of ownership of shares (vesting) to members of Executive Management, liabilities from the share programmes will be posted at market value under "Deferred income". Details on the compensation system can be found in the Compensation Report (see page 27 ff).

Information on conversion rates
Accounting and reporting in Swiss francs. In the case of foreign currencies, closing rates are applied for balance sheet items and average exchange rates are applied for transactions during the year and for the income statement.

	31.12.2016	31.12.2015
USD balance sheet date rate	1.0190	0.9931
USD annual average rate	0.9852	0.9622
EUR balance sheet date rate	1.0737	1.0830
EUR annual average rate	1.0900	1.0679

Treasury shares
Treasury shares are held for bonus-share programmes of Valartis employees. Directly held treasury shares are reported at the time of acquisition, at cost, as debit items against equity.

In the case of later re-sale, profit or loss is reported as deferred income or expenditure. A reserve for treasury shares is in place under equity capital for Valartis Group AG shares which are held indirectly by other Group companies.

Long-term, interest-bearing liabilities
Loans in foreign currencies are valued at the current closing rate, whereby unrealised losses are reported but unrealised profit is not (imparity principle).

Waiver of cash flow statement and additional notes
Valartis Group AG has prepared its consolidated accounts in accordance with recognised accounting standards (IFRS). In this annual financial statement, the company has waived preparation of notes on interest-bearing liabilities and audit fees, as well as preparation of a cash flow statement, in accordance with legal provisions.

3. INCOME STATEMENT

	2016	2015
3.1 Dividend income		
Dividend income from participations	4,200,000	4,106,272
Total	**4,200,000**	**4,106,272**

	2016	2015
3.2 Other financial income		
Income from cash and cash equivalents	0	81,605
Gain from sale of options	727,233	0
Interest income on receivables from Group companies	399,108	538,961
Result from foreign exchange difference and other financial income	1,901,103	94,140
Total	**3,027,444**	**714,706**

Valartis Group AG had an option to repurchase participation shares from employees and member of the Board of Directors of Valartis Bank (Liechtenstein) AG. The options have been exercised in 2016 when employees and member of the Board of Directors left before the sale of Valartis Bank (Liechtenstein) AG as per 20 September 2016. The gain from sale of options relates to these transactions.

	2016	2015
3.3 Other operating income		
Gain from sale of participations	493,493	327,235
Total	**493,493**	**327,235**

Gain from sale of participations is related to the sale of 49 per cent of shares on real estate project company Parking Clé de Rive SA to an investor group.

	2016	2015
3.4 Personnel expense		
Personnel expense	-5,519	354,585
Total	**-5,519**	**354,585**

Valartis Group AG did not have any own employees in the reporting year, or in the previous year. Expenditure for 2015, however, included costs for bonus share programmes from FY 2012 and 2013, on which the exercise date has not yet been reached. The accrual for variable cash bonuses for FY 2014 was liquidated in FY 2015 since no bonuses were paid due to results. This reduction in expenditure resulted in a positive figure for FY 2015 under "Personnel expense".

	2016	2015
3.5 Other operating expense		
Consulting and audit expense	-1,058,186	-2,357,186
IT and telecommunication expense	-22,305	-85,301
Other operating expense to third parties	-2,679,404	-3,122,155
Total	**-3,759,895**	**-5,564,642**

In Other operating expense are charges for services from Group companies of CHF 2.5 million (previous year: CHF 2.5 million) included.

3. INCOME STATEMENT (CONTINUED)

	2016	2015
3.6 Impairment losses on financial assets and participations		
Reversal of impairment on participations	34,481,000	0
Impairment losses on participations	-19,800,000	-74,849,576
Total	**14,681,000**	**-74,849,576**

Valartis Finance Holding AG sold in 2016 all shares on Valartis Bank (Liechtenstein) AG with a gain. Valartis Group AG could therefore recognise a reversal of impairment on participations on the book value of Valartis Finance Holding AG. The impairment losses on participations has been booked on a subsidiary, which intends to sell a minority participations.

3.7 Financial expense		
Interest expense on short-term liabilities to third parties	-2,516,507	-3,523,079
Interest expense on short-term liabilities to Group companies	-760,251	-778,517
Other financial expenses (incl. losses from foreign exchange translation)	-95,895	-3,399,959
Total	**-3,372,653**	**-7,701,555**

3.8 Extraordinary and prior period income		
Extraordinary income 1)	0	1,200,000
Prior period income 2) 3)	416,110	69,807
Total	**416,110**	**1,269,807**

3.9 Extraordinary and prior period expenses		
Extraordinary expenses 3)	0	-4,648,719
Prior period expenses	-117,723	-49,073
Total	**-117,723**	**-4,697,792**

1) The extraordinary income 2015 relates to the release of a no longer necessary provision.
2) A payment received for VAT reclaim from previous years is disclosed as prior period income in 2015.
3) The sales contract from September 2014 governing the participation in Norinvest Holding SA contained a clause, in accordance with which the sales price must be subsequently adjusted if Norinvest Group sells a property above or below he carrying value, which applied at that time. In 2015, Norinvest Group sold a property at a price which was considerably higher than the earlier carrying price. This resulted in costs for Valartis Group amounting to CHF 4.6 million arising out of the subsequent sales price adjustment. Payment of these liabilities took place in reporting year 2016. The definitive settlement was CHF 0.3 million below the amount which was projected in 2015, which has resulted in prior period income of the same amount in 2016.

4. BALANCE SHEET

4.1 Other short-term receivables

in CHF	31.12.2016	31.12.2015
Third parties	341,749	168,669
Group companies	2,555,357	25,092,044
Total	**2,897,106**	**25,260,713**

4.2 Financial assets

Securities	3,379,373	3,379,373
Long-term receivables from companies in which the entities holds an investment	1,287,547	4,211,923
Total	**4,666,920**	**7,591,296**

An outstanding receivable from Banque Cramer & Cie SA arising out of divestment of Valartis Bank AG and Valartis Wealth Management SA is posted as a short-term receivable of CHF 1.0 million and as a long-term receivable due from holdings of about CHF 1.3 million. Periodic payments will take place in accordance with an agreed partial payment up to 2020.

4.3 Participations

Name and domicile	Share of capital/ share of votes 2016	Share of capital/ share of votes 2015	Share capital
Valartis Finance Holding AG, Vaduz	100%/100%	100%/100%	20,000,000 CHF
Valartis Advisory Services SA, Geneva	100%/100%	100%/100%	1,896,210 CHF
Valartis International Ltd., Tortola (BVI)	100%/100%	100%/100%	20,504,000 CHF
Valartis Immobilier AG, Baar	100%/100%	100%/100%	100,000 CHF
Parking Clé de Rive SA, Geneva [1)]	51%/51%	100%/100%	148,500 CHF
MCT Luxembourg Management S.à.r.l., Luxembourg	100%/100%	100%/100%	12,085 EUR
Valartis Strategic Investments S.à.r.l, Luxembourg	100%/100%	100%/100%	100,000 EUR

1) We refer to 3.3.

Valartis Finance Holding AG, Vaduz

Valartis Finance Holding AG served as a holding company for the holding in Valartis Bank (Liechtenstein) AG and the private banking business in Austria, divestment of which took place in the reporting year, together with the current holding in Valartis AG. The holdings in ENR Russia Invest SA, Athris Holding AG and Norinvest Holding SA are held via Valartis AG (see table Indirect holdings, page 134).

Participations (indirectly held)

Name and domicile	Parent company	Share of capital/ Share of votes 2016	Share of capital/ Share of votes 2015	Share capital/ Stock capital
Valartis Bank (Liechtenstein) AG, Gamprin-Bendern (Liechtenstein)	Valartis Finance Holding AG	sold	70.04%/88.97%	20,000,000 CHF
Valartis (Austria) GmbH, Vienna (A)	Valartis Finance Holding AG	100%/100%	100%/100%	1,000,000 EUR
Valartis (Wien) GmbH, Vienna (A) [2]	Valartis Finance Holding AG	merged	100%/100%	100,000 EUR
Valartis Bank (Austria) AG, Vienna (A) [1] [2]	Valartis (Austria) GmbH and Valartis (Wien) GmbH	merged	100%/100%	6,570,000 EUR
Valartis AG, Baar	Valartis Finance Holding AG	100%/100%	100%/100%	100,000 CHF
ENR Russia Invest SA, Geneva	Valartis AG	62.26%/62.26%	62.26%/62.26%	32,790,585 CHF
Norinvest Holding SA, Geneva	Valartis AG	25%/25%	25%/25%	25,689,000 CHF
Darsi Investment Ltd., Tortola (BVI)	Valartis International Ltd.	32.44%/32.44%	32.44%/32.44%	7,476,190 EUR
Société des Centres Commerciaux d'Algérie SPA, Algiers (Algeria) [3]	Valartis International Ltd.	20%/20%	20%/20%	703,333,000 DZD

1) On 18 December 2015, Valartis Bank (Austria) AG and Wiener Privatbank SE signed an Asset Purchase Agreement governing the takeover of the major banking operation of Valartis Bank (Austria) AG. After fulfilment of all conditions precedent, closing took place on the takeover, according to plan, on 1 April 2016.
2) Following divestment of the banking business, Valartis Bank (Austria) AG and Valartis (Vienna) GmbH were amalgamated within the framework of the merger with Valartis (Austria) GmbH.
3) The indirect participation on Société des Centres Commerciaux d'Algérie SPA amounts on 45.95% (previous year: 45.95%). At beginning of April 2017 a share purchase agreement (SPA) has been signed governing divestment of the minority holding in Darsi Group.

4.4 Trade account payables

in CHF	31.12.2016	31.12.2015
Trade account payables due to third parties	274,940	651,405
Trade account payables due to governing bodies (incl. auditors)	50,058	91,800
Total	**324,998**	**743,205**

4.5 Short-term interest-bearing liabilities

Short-term interest-bearing liabilities due to third parties	0	19,481,922
Short-term interest-bearing liabilities due to Group companies	5,300,000	33,574,869
Total	**5,300,000**	**53,056,791**

4.6 Other short-term liabilities

Other short-term liabilities due to third parties	17,726	237,742
Other short-term liabilities due to Group companies	774,700	7,550,746
Total	**792,426**	**7,788,488**

Trade account payables and other short-term interest-bearing liabilities and non-interest-bearing liabilities

After successful divestment of holdings within the framework of the recovery plans, all liabilities owed to third parties by Valartis Group AG and Valartis Finance Holding AG since commencement of the moratorium, or bankruptcy deferment, have been settled in full. The same applies to liabilities owed to the divested Valartis Bank (Liechtenstein) AG, Valartis Bank (Austria) AG and the merged entity Valartis (Austria) GmbH.

Current, outstanding liabilities due to Valartis Finance Holding AG and other Group companies have been contractually agreed in the longer term (see disclosure in 4.7).

4.7 Long-term interest-bearing liabilities

in CHF	31.12.2016	31.12.2015
Long-term interest-bearing liabilities due to Group companies	27,122,380	0
Total	**27,122,380**	**0**

4.8 Other long-term liabilities

Long-term liabilities due to Group companies	2,025,409	0
Total	**2,025,409**	**0**

4.9 Share capital

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

4.10 Treasury Shares

	Number of shares 2016	Number of shares 2015	in CHF 2016	in CHF 2015
Inventory as at 1 January	283,158	355,725	6,130,201	7,701,233
Acquisitions				
Sales	-18,670	-72,567	-404,194	-1,571,032
Inventory at 31 December	**264,488**	**283,158**	**5,726,007**	**6,130,201**
of which directly held by Valartis Group AG	23,203	23,203	502,331	502,331
of which directly held by participations	241,285	259,955	5,223,676	5,627,870

	2016	2015
Average sales price per share in the period	7.11	16.09
Average purchase price per share per balance sheet date	21.65	21.65

All sale in current year were related to bonus share programmes of employees.

The selling price for a portion of the shares sold in 2015 was stipulated as being CHF 19.70 per share in the sales contract for Valartis Bank AG and Valartis Wealth Management SA on 29 August 2014. The transaction was concluded in 2015, resulting in an average selling price per share which was considerably higher than the price listed on the stock exchange for Valartis Group AG shares for 2015.

Presentation in the equity

in CHF	2016	2015
Treasury shares directly held are deducted from shareholders' equity	-502,331	-502,331
For the treasury shares indirectly held by other Group companies a reserve for treasury shares was recorded.	5,223,676	5,627,870

5. ADDITIONAL INFORMATION

in CHF	31.12.2016	31.12.2015
Total amount of collaterals provided for liabilities of third parties		
Total amount of collaterals provided for liabilities of third parties	0	4,906,057

in CHF	31.12.2016	31.12.2015
Total amounts of collaterals provided for own liabilities		
Total amounts of collaterals provided for own liabilities	0	23,866,563
Total amounts of assets with limited power of disposal		
Total amounts of assets with limited power of disposal	0	82,992,379

Pledging, or security transfer, of Valartis Group AG assets as security for liabilities due to third parties and own liabilities was fully repealed after repayment of the liabilities within the framework of the recovery. There is no longer any limitation on power of disposition imposed on Valartis Group AG assets, after closing of regulatory proceedings by the supervisory authorities in Liechtenstein and Austria, with no charges being brought, following the Group's successful recovery.

Shareholder structure

in per cent	31.12.2016	31.12.2015
MCG Holding SA, Baar ZG	50.2	50.2
INTEGRAL Stiftung für berufliche Vorsorge, Thusis GR	<3.0	5.1
Negab AG, Zurich	3.2	
Gustav Stenbolt	0.9	0.8
Philipp LeibundGut	0.5	

The beneficial owners of MCG Holding SA are Gustav Stenbolt, Geneva, Tidesea SA., 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 hold qualified holdings: a) Gustav Stenbolt holds 72.5 per cent of voting rights (63.54 per cent of capital) of MCG Holding SA (partially held through Tidesea SA, Baar); b) Philipp LeibundGut holds 14.8 per cent of voting rights (19.7 per cent of capital) of MCG Holding SA, and c) Tudor Private Portfolio LLC, Greenwich, USA, with 12.3 per cent of voting rights (16.3 per cent of capital) of MCG Holding SA.

Tudor Private Portfolio LLC is wholly controlled by Tudor Group Holdings LLC, Greenwich, USA, which is in turn controlled by Paul Tudor Jones, Greenwich, USA. Pierre Michel Houmard holds 0.4 per cent of voting rights, or 0.6 per cent of capital, of MCG Holding SA. The shares held directly by Gustav Stenbolt as at 31 December 2016 and 2015, stem from the bonus programme operated by Valartis for Executive Management and employees. Philipp LeibundGut is a member of the Board of Directors since 28 June 2016. The shares held directly by him as at 31 December 2016 stem from the bonus programme as former employee of Valartis Group.

Loans and equity holdings of the members of the board of directors and executive management at year end

2016	Gustav Stenbolt Chairman	Christoph N. Meister	Philipp LeibundGut 1)	Total
Number of shares held by and loans/advances for the members of Board of Directors				
Numbers of shares held at 1 January	1,858,623	4,821	394,391	2,257,835
Allocated or purchased shares in the reporting period 1)	4,110		1,174	5,284
Numbers of shares held at 31 December	1,862,733	4,821	395,565	2,263,119
Number of shares entitled from ongoing share plans	4,179		1,194	5,373
Loans and advances directly in CHF	0	0	0	0
Loans and advances to related parties in CHF	0	0	0	0

1) Member of the Board of Directors since 28 June 2016.
2) Shares newly allocated during the reporting year are in connection with a bonus plan based on 2012 results.

2015	Gustav Stenbolt Chairman 1)	Christoph N. Meister	Total
Number of shares held by and loans/advances for the members of Board of Directors			
Numbers of shares held at 1 January		4,821	4,821
Allocated or purchased shares in the reporting period			0
Numbers of shares held at 31 December	1,858,623	4,821	1,863,444
Number of shares entitled from ongoing share plans	8,289		8,289
Loans and advances directly in CHF	0	0	0
Loans and advances to related parties in CHF	0	0	0

1) Member of the Board of Directors since 2 June 2015. The number of shares as per 31 December 2015 is equal to the numbers of shares as per 2 June 2015.

2016	Stephan Häberle CEO [1]	George M. Isliker CFO/CRO	Total
Number of shares held by and loans/advances for the members of Executive Management			
Numbers of shares held at 1 January		9,971	9,971
Allocated or purchased shares in the reporting period [1]		3,523	3,523
Numbers of shares held at 31 December		13,494	13,494
Number of shares entitled from ongoing share plans [4]		1,791	1,791
Loans and advances directly in CHF		0	0
Loans and advances to related parties in CHF		0	0

1) Allocated shares in 2016 are from bonus share plan which is based on results 2012.

2015	Stephan Häberle CEO [1]	George M. Isliker CFO/CRO	Gustav Stenbolt CEO [2]	Total
Number of shares held by and loans/advances for the members of Executive Management				
Numbers of shares held at 1 January		5,852	1,873,821	1,879,673
Allocated or purchased shares in the reporting period [1]		4,119	11,941	16,060
Shifting due to changes in capital structure of MCG Holding AG			-27,139	-27,139
Numbers of shares held at 31 December		9,971	see Board of Directors	9,971
Number of shares entitled from ongoing bonus share plans [4]		5,314		5,314
Loans and advances directly in CHF		0	0	0
Loans and advances to related parties in CHF		0	0	0

1) CEO since 3 June 2015.
2) CEO until 2 June 2015. Part of the shareholdings are indirectly held by MCG Holding AG.
3) Allocated shares in 2015 are from bonus share plans which are based on results 2011 and 2013.
4) Shares allocated to members of the Executive Board as bonus components in this or previous financial years, but which have not yet been vested are listed as entitlements.

As in the previous year, no new bonus programme was opened in 2016.

SUCCESSFULL RECOVERY

Against the background of the need for restructuring at Valartis Group AG in Switzerland and Valartis Finance Holding AG in Liechtenstein, in 2015, the Boards of Directors of the holding companies resolved to implement recovery plans for the two companies. The primary objective of these recovery plans was to eliminate the temporary lack of liquidity at both companies as quickly as possible.

As at the balance sheet date, 31 December 2016, all measures implemented to achieve this objective, above all the sale of assets, had been finalised. Based on the evaluation by authorities, whereby the recovery was considered as being successful, at the time of drafting of this report, the deferment of bankruptcy in Liechtenstein for Valartis Finance Holding AG and the moratorium on Valartis Group AG in Switzerland had both been lifted.

Valartis Finance Holding AG was released from the deferment of bankruptcy by the Princely Court of Liechtenstein on 28 October 2016, after an application by the commissioner. Valartis Group AG was released from its moratorium by the Cantonal Court of Zug on 17 November 2016, after an application by the company.

EVENTS AFTER THE BALANCE SHEET DATE

None.

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 16 May 2017 in respect of the distribution of profit:

in CHF	2016	2015
Profit brought forward from previous year	48,711,870	134,752,830
Net profit/(loss)	15,562,257	-86,040,960
Retained earnings available for the general meeting of shareholders	64,274,127	48,711,870
Dividend on capital entitled to dividend payments [1)]	-947,102	0
Profit to be carried forward	63,327,025	48,711,870

1) Dividend of CHF 0.2 per share for 4,735,512 issued shares at 31 December 2016 (without treasury shares).

Dividend payment

The Board of Directors proposes a dividend of CHF 0.20 per share (prior year: no dividend).

The number of shares with dividend rights will change if the number of shares held by Valartis Group AG or its subsidiaries changes.

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To the General Meeting of
Valartis Group AG, Baar

Zurich, 3 April 2017

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements (pages 128 to 140) of Valartis Group AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2016.

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 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each

matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of participations

Area of focus	Valartis Group AG values participations individually at the lower of historical cost or at its impaired value. In subsequent periods, impairments are recognized for any loss in value. In order to determine the need for an impairment, the carrying amount of each participation is compared against the recoverable amount which is the higher of the participation's net asset value or capitalized earnings value. The capitalized earnings value is based on assumptions (e.g. future cash flows, discount rate) which involves significant management judgement. As of 31 December 2016, Valartis Group AG accounts for CHF 130.0 million in participations. This equals 93.3% of the total assets as of year-end. Due to the assumptions used in the impairment assessment and the significance of the balance sheet position in the financial statements of Valartis Group AG, the audit of this balance sheet position represents a key audit matter. The accounting principles applied are explained on page 130 and further explanation is available in note 4.3 in the annual report of Valartis Group AG.
Our audit response	We evaluated the applied valuation methods and management's assessments based on financial statements. Furthermore we evaluated the existence of impairment indicators and the derived management's assumptions. We gained an understanding of the valuation methodology used to determine the recoverable amount of its investment. We further tested the underlying data used in management's valuation model and the presentation and disclosure of the financial statement as of 31 December 2016.

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.

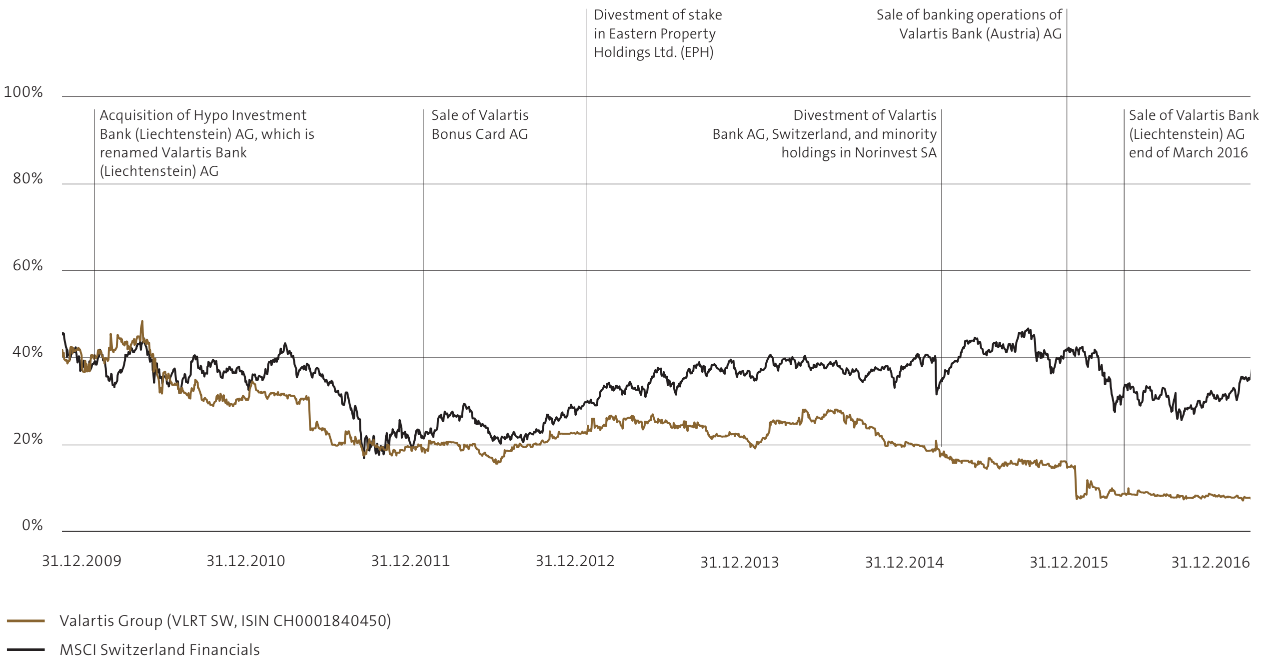
In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

Stefan M. Schmid Licensed audit expert (Auditor in charge)	Alain Münger Licensed audit expert

VALARTIS GROUP AG BEARER SHARE



in CHF	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
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	4,565,433	4,593,960	4,644,275	4,716,842	4,735,512
Nominal value of VLRT bearer share	1.00	1.00	1.00	1.00	1.00
Closing price of VLRT bearer share	20.00	17.70	15.40	8.45	6.80
Annual high	21.30	22.10	23.00	17.25	8.20
Annual low	13.00	15.80	15.35	6.40	6.10
Market capitalisation	100,000,000	88,500,000	77,000,000	42,225,000	34,000,000
Dividend per share	1.00	0.00	0.00	0.00	0.20
Dividend yield	5.0%	n/a	n/a	n/a	2.9%
Price-to-book ratio	0.31	0.28	0.33	0.26	0.26

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Valartis Market Information
Bearer shares listed on SIX Swiss Exchange
Symbol on SIX: VLRT
Reuters: VLRT.S
Bloomberg: VLRT SW
ISIN: CH0001840450
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Valartis market

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