LETTER TO SHAREHOLDERS

Comments on VZ Group's
annual results 2018

VZ Holding Ltd
Gotthardstrasse 6
8002 Zurich

VZ GROUP: 2018 FINANCIAL YEAR

Dear Shareholder

Operating revenues + 9.2 percent

Due to the sharp correction on the financial markets, operating revenues grew at a slower rate of 9.2 percent to CHF 284.2 million in the year under review. At 13.1 percent, net profit rose significantly stronger to CHF 98.2 million. Adjusted for the CHF 5.2 million that we set aside in 2017 as a one-time provision for disputed value-added taxes, actual profit growth was 8.1 percent.

Market correction weighs on results

All asset classes lost value in 2018. In the fourth quarter in particular, this slowed the growth of revenues from assets under management, our largest revenue component. In addition, negative interest rates are weighing increasingly on the results. The above-average trading volume, on the other hand, led to an unusually strong increase in banking revenues. However, no trend for this revenue component can be derived therefrom.

Growing demand

Regardless of the development on the financial markets, more and more private individuals and companies seek our advice, which is reflected in the increase in consulting fees. Many of these clients also entrust us with their assets. Net new money grew by 11 percent to CHF 2.6 billion, while the value of assets under management rose from CHF 21.8 billion to CHF 23.1 billion. The difference is due to the market correction.

Sound balance sheet and higher dividend

At CHF 3.1 billion, the balance sheet total at the end of the year was 14.2 percent higher than at the beginning of the year. The equity ratio and the core capital ratio are a solid 16.6 and 30.1 percent, respectively. As in previous years, around 40 percent of the profit will be distributed to shareholders. The Board of Directors will therefore propose an increase in the dividend from CHF 4.35 to CHF 4.90 per share to the Annual General Meeting.

Outlook

The turbulences on the financial markets continue to have an impact, and will also weigh on the current financial year in particular. In 2018, the value of assets under management, our largest revenue base, increased by only 5.9 percent compared with 18.3 percent in the previous year. We therefore expect weaker revenue growth for 2019. Meanwhile, our client base continues to expand and the number of services per client is on the rise. In the short term, it is unlikely that this growth will fully compensate for the difficult starting position. Together with the volatile bank revenues, we anticipate weaker profit growth in the current year. Even if the difficult market phase persists, we will continue to invest in our business model. As a result, costs may grow slightly faster than revenues. As from 2020, growth is expected to return to normal.

We thank all those involved with VZ, as well as those who help shape its development and encourage its fortunes.

Zurich, 1 March 2019

F. Kindle

Fred Kindle
Chairman of the Board of Directors

Matthias Reinhart
Chief Executive Officer

«Today, 15 percent of our existing clients already use at least three of our platforms.»

Adriano Pavone, Head of Media Operations, discusses the results and outlook for VZ Group with Matthias Reinhart, Chief Executive Officer.

Mr Reinhart, how do you assess the business year that lies behind us?

From a distance, the results are good: despite the severe turmoil on the capital markets, we were able to increase our revenues by just over 9 percent – almost as much as in 2017, when the economic outlook and investor sentiment were much better. Our revenues are made up of several components which all react differently. Even in difficult market phases, the consulting business is developing well, as long as our consulting capacity grows with the demand. The situation is different for revenues which depend directly on the volume of the assets under management. They come under pressure when the market situation deteriorates, and this has a negative impact on our results.

«Even in difficult market phases, our consulting business is developing well.»

Does that apply to banking revenues as well?

After fees on assets under management, which account for around 60 percent of our operating revenues, banking revenues are the second most substantial revenue component with a 20 percent share. Banking revenues are difficult to predict because their components correlate randomly or not at all. Their main components are revenues from transactions, trading and interest margin business. Transaction revenues have been declining for years, as more and more clients are opting for mandates with all-in fees. Trading revenues are volatile and can hardly be planned. Finally, interest revenues have been declining for years due to negative interest rates. In 2018, negative interest rates totalled CHF 4.3 million. We choose not to pass these costs on to our clients.

And what about the other revenues?

Revenues from the corporate client business are growing at a similarly constant rate as in the private client consulting business. Therefore, both can be planned quite accurately. Due to a base-effect, premiums from the insurance business are currently growing disproportionately. We only started this business three years ago.

Which areas are most vulnerable to market disturbances such as those we have just experienced?

They have virtually no impact on the influx of consulting clients. Demography is the key factor here: questions regarding retirement and estate planning are largely independent of how the stock markets develop. We have already mentioned the effects on revenues from assets under management. Time and again, we have also noticed that our clients are more reluctant to make decisions in difficult market phases. They hesitate to opt for a management mandate, which also slows the growth of net new money and the number of platforms each client uses. However, fluctuations on the financial markets have hardly any impact on our mortgage and insurance business and leave little trace in our corporate client business.

In other words, business develops similarly in good and bad stock market phases?

Basically yes, because the influx of new clients is primarily driven by demographics. However, a downturn on the stock markets – weakened and with a delay of six to nine months – is also reflected in our revenues.

Net new money grew by 11 percent. How do you assess this development?

Compared with 2017, growth has slowed somewhat. Our clients' increased reluctance is already noticeable here. This trend is likely to continue in the current year. Per financial consultant, the inflow of net new money hardly changed and remained within the target range of CHF 17 to 20 million. This rate has improved slightly since 2017, but remains at the lower end of the target range at CHF 17.3 million.

services and operational processes. We are constantly expanding our financial portal so that our clients can use it to manage all their finances and insurances online. We will continue to invest substantially in the development of this interface.

So you can increase the stickiness?

Today, 15 percent of our existing clients already use at least three of our platforms: for example, they entrust us with the management of their portfolios and use our mortgage, insurance and e-banking services. This development confirms that our strategy works. In the longer term, we want to increase this share from 15 percent to one third.

Do you expect costs and revenues to grow at roughly the same rate also in 2019?

Yes, that remains our goal. In the short term, this may be challenging, especially because it is impossible to predict accurately how the financial markets will develop and how that development will affect our revenues. In the longer term, however, our goal seems realistic. Regarding the costs, it is important to

«We continue to invest substantially in the future growth of our business.»

bear in mind that, on the one hand, we are constantly streamlining our processes and, on the other hand, we continue to invest substantially in the future growth of our business – both in terms of topics and geography.

Depreciation seems unusually high.

In fact, depreciation increased again disproportionately by close to 24 percent. This growth rate should decrease significantly in 2019 and flatten out in 2020. The strong increase in the last two years is due to the large investments in the digitalisation of our services.

Where does VZ stand on its way to digitalisation?

We digitalise our business along the entire value chain, i.e. from attracting and serving clients, to our

Once again, the balance sheet has grown strongly. Have risks also increased accordingly?

The balance sheet total does not develop in sync with revenue growth. An important reason for the balance sheet growth is that our clients tend to hold more cash whenever uncertainties on the stock markets increase. VZ has always been very safety-oriented. Because we place security above maximising returns, a large portion of our assets is invested in a broadly diversified portfolio of Swiss residential mortgages.

Could interest income be improved?

We are currently examining that. Today, over 90 percent of the mortgage portfolio consists of money market mortgages. With the current interest rates, we might use interest rate swaps to extend the duration of around one third of the money market mortgages.

Last question: What is the background for the big leap in dividends?

We have been distributing around 40 percent of net profit to our shareholders for years. Due to the extraordinary provision in 2017, profit for the 2018 financial year rose disproportionately by over 13 percent. It is therefore appropriate to increase the dividend by a similar rate.

KEY FIGURES

Income statement

in CHF '000

	2018	2017
Operating revenues	284'188	260'235
Operating expenses	157'004	149'194
Operating profit (EBITDA)	127'184	111'041
Net profit[1]	**98'246**	**86'823**

1 Including non-controlling interests.

Balance sheets

in CHF '000

	31.12.2018	31.12.2017
Total assets	**3'087'945**	**2'703'475**
Equity[1]	512'266	459'470
Net cash[2]	439'543	366'001

1 Including non-controlling interests.
2 Cash and cash equivalents, short-term investments, marketable securities, financial assets less current liabilities due to customers, long-term debts and due to banks.

Equity key figures

	31.12.2018	31.12.2017
Equity ratio[1]	16.6 %	17.0 %
Common equity tier 1 capital ratio (CET1)	30.1 %	30.4 %
Total eligible capital ratio (T1 & T2)	30.1 %	30.4 %

1 Equity compared to the consolidated balance sheet total.

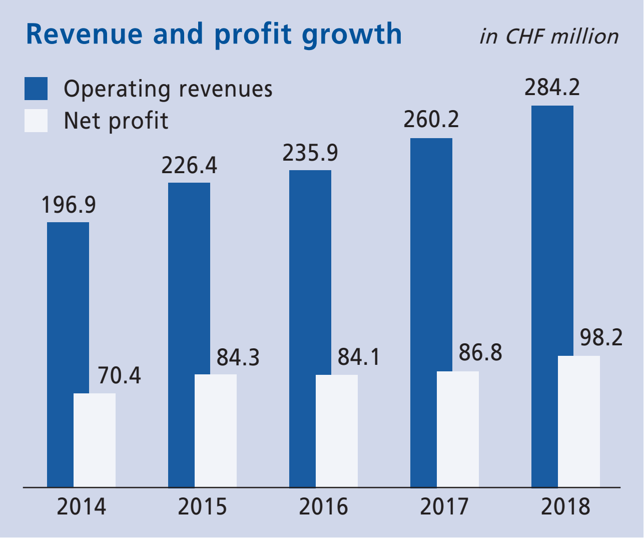
Assets under management

in CHF million

	31.12.2018	31.12.2017
Assets under management	23'056	21'775

Employees

	31.12.2018	31.12.2017
Full-time equivalents (FTE)	897.5	840.4



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