

# CORPORATE GOVERNANCE

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## BOARD OF DIRECTORS



From left to right:

**Roland Iff**, Vice-Chairman, Head Risk & Audit Committee, **Dr. Albrecht Langhart**, Member of the Risk & Audit Committee, **Fred Kindle**, Chairman, Head Compensation Committee, **Roland Ledergerber**, Member of the Compensation Committee, **Olivier de Perregaux**, Member of the Risk & Audit Committee

## EXECUTIVE BOARD



**Matthias Reinhart**  
Chief Executive Officer



**Giulio Vitarelli**  
Managing Director VZ VermögensZentrum  
(Switzerland)



**Thomas Schönbacher**  
Deputy Managing Director VZ VermögensZentrum  
(Switzerland)



**Tom Friess**  
Managing Director VZ VermögensZentrum  
(Germany)



**Marc Weber**  
Managing Director VZ Depository Bank



**Manuel Rütche**  
Managing Director Asset Management



**Lorenz Heim**  
Managing Director HypothekenZentrum



**Urs Feldmann**  
Managing Director business unit Pension Plans  
and Insurance Consulting for corporate clients  
as well as People Development & Recruiting



**Rafael Pfaffen**  
Chief Financial Officer

# CORPORATE GOVERNANCE

Effective corporate governance ensures fairness and transparency vis-à-vis all stakeholders, in particular vis-à-vis shareholders. VZ Group is committed to protecting the interests of shareholders and to disclosing all relevant information.

VZ Holding Ltd's standards and principles are in accordance with Swiss and international requirements for good corporate governance. VZ Group's Code of Conduct describes the values, objectives and behaviour that serve as a guideline for all employees within the group. This Code of Conduct can be downloaded from [www.vzch.com](http://www.vzch.com).

## Best practice

The information in this section is based upon VZ Holding's articles of association and SIX Swiss Exchange's directives. The information is structured according to the SIX «Corporate Governance Directive» and Economiesuisse's «Swiss Code of Best Practice».

All information on the Board of Directors and VZ Holding Ltd's compensations in this report refers to 31 December 2018.

## Regulations

VZ Group is a financial services group. It is subject to the consolidated financial supervision of the Swiss Financial Market Supervisory Authority (FINMA). VZ Depository Bank is licensed to operate as a depository bank and securities trader. VZ InsurancePool is monitored by FINMA as a non-life insurer. The German subsidiary VZ Vermögens-Zentrum GmbH and the VZ Depository Bank Germany Ltd (both in Munich) report to the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) and to the Deutsche Bundesbank. VZ Treuhand GmbH holds an exemption from the German Federal Financial Supervisory Authority for its activities.

## Group structure and shareholders

### Group structure

VZ Group encompasses the following legally-independent companies:



<sup>1</sup> In incorporation

<sup>2</sup> VZ Holding holds 40 percent of Früh & Partner Vermögensverwaltung Ltd's share capital and 51 percent of the voting rights

**Listed company** VZ Holding Ltd (Zurich) is the only listed company within the scope of consolidation. Its entire share capital is listed on SIX Swiss Exchange's International Reporting Standard (securities number 2820083, ISIN CH0028200837). The market capitalisation as at 31 December 2018 amounted to CHF 2120 million.

**Non-listed companies** The scope of consolidation comprises the following subsidiaries (unless stated otherwise VZ Holding Ltd is the sole shareholder of these companies):

**VZ VermögensZentrum Ltd, Zurich**

Financial consulting and wealth management for private clients in Switzerland.  
Share capital: CHF 2'000'000

**VZ VermögensZentrum GmbH, Munich (Germany)**

Financial consulting and wealth management for private clients in Germany.  
Registered capital: EUR 3'820'945

**VZ Depository Bank Ltd, Zug**

Securities accounts, securities and currency transactions, portfolio advisory and management for private clients and institutional investors; provision and purchasing of mortgage credits; sureties and guarantees for clients who have deposited assets at VZ Depository Bank as collateral for these sureties and guarantees.  
Share capital: CHF 45'000'000

**VZ Asset Management Ltd, Zug**

Investment research as well as consulting and management mandates from institutional clients.  
Share capital: CHF 400'000

**VZ Quant Portfolio Services Ltd, Zug**

Consulting services to other financial services providers in asset management, risk management, portfolio management as well as the development of tools for this industry.  
Share capital: CHF 100'000

**HypothekenZentrum Ltd, Zurich**

Management of mortgages and transfer of mortgages to institutional investors.  
Share capital: CHF 250'000

**HZ Credit Support Ltd, Zurich**

Services in the field of credit consulting, credit assessment and credit administration for group companies.  
Share capital: CHF 100'000

**HZ Servicing Ltd, Zurich**

Services in the field of credit management and payment processing.  
Share capital: CHF 100'000

#### **VZ Insurance Services Ltd, Zurich**

Risk management consulting as well as insurance and pension fund management for corporate clients.

Share capital: CHF 100'000

#### **VZ VersicherungsZentrum Ltd, Zurich**

Management of insurance portfolios for private clients.

Share capital: CHF 100'000

#### **VZ InsurancePool Ltd, Zurich**

Property and casualty insurances for individuals in Switzerland.

Share capital: CHF 12'500'000

#### **VZ Vorsorge Ltd, Zurich**

Consulting and management services for as well as management of investment foundations, pension funds and other institutions providing occupational benefit schemes.

Share capital: CHF 100'000

#### **VZ Corporate Services Ltd, Zurich**

IT, marketing, HR, accounting and controlling services for VZ Group companies.

Share capital: CHF 100'000

#### **VZ Depository Bank Germany Ltd, Munich (Germany)**

Bank services to clients in Germany.

Share capital: EUR 20'000'000

#### **VZ Treuhand GmbH, Munich (Germany)**

The unit assumes trustee assets in the area of occupational benefit schemes in order to administrate, secure and finance benefits from entitlements and claims.

Registered capital: EUR 100'000

#### **Claridenhof Ltd, Zurich**

The company's purpose is the acquisition, holding and sale of real estate. It is not operative and holds one property in Zurich, which is used from VZ Group.

Share capital: CHF 104'000

Subsidiary with a majority of voting rights within the scope of consolidation:

#### **Früh & Partner Vermögensverwaltung Ltd, Zurich**

Financial consulting and wealth management for entrepreneurs in Switzerland. VZ Holding Ltd holds 40 percent of Früh & Partner Vermögensverwaltung Ltd's share capital and 51 percent of the voting rights.

Share capital: CHF 250'000



## Minority holdings

VZ Holding Ltd holds a strategic stake of 33 percent in Dufour Capital Ltd, Zurich, and takes a seat on Dufour's Board of Directors. Dufour Capital is an asset manager specializing in the development of rule-based investment solutions. The company has a share capital of TCHF 150. Dufour Capital has an advisory mandate from VZ Group.

As per 31 December 2018 no other participation in companies other than stated above were held by VZ Group.

### Major shareholders

The Federal Law on Financial Market Infrastructures and the Market Behavior in Securities and Derivatives Trading (Finanzmarktinfrastrukturgesetz) requires that shareholders and holders of rights to acquire or sell shares disclose their holdings if those exceed or fall below certain limits. This is designed to ensure that material changes in ownership and voting rights are transparent for all market participants.

Matthias Reinhart, founder and Chief Executive Officer of VZ Group, holds a majority of 60.97 % of all shares (last disclosure notice in 2012: 60.87 %) both directly and indirectly through Madarex Ltd, a company he controls. In addition to Matthias Reinhart, two institutional investors controlled more than 3 % of the voting rights as of 31 December 2018: Capital Group Companies, Inc. (USA) holds 4.99 %, and Mawer Investment Management Ltd (Canada) 3.14 %. In August 2018, Capital Group Companies increased its stake to 5.001 %. In October 2018, the company informed that it had reduced its holding to the original 4.99 %. No further disclosure notices have been received during the year under report.

### Shareholders on 31.12.2018

Matthias Reinhart (directly and indirectly)	60.97 %
Members of the Board of Directors <sup>1</sup>	1.43 %
Other members of the Executive Board <sup>1</sup>	2.06 %
VZ employees <sup>2</sup>	3.46 %
Capital Group Companies, Inc. (reported on 26.10.2018)	4.99 %
Mawer Investment Management Ltd (reported on 20.4.2017)	3.14 % <sup>3</sup>
Treasury shares	1.06 %
Free float/remainder	22.89 %

<sup>1</sup> Without related parties.

<sup>2</sup> All shares of employees that are locked-up or registered in the share register are reported. For additional information, please refer to the table on page 21.

<sup>3</sup> Thereof, 0.93 % have been transferred by a third party, including unrestricted voting rights.

All relevant notifications are published on the website of the SIX Swiss Exchange's disclosure office (<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>).

There are no shareholder pooling agreements.

### Cross-shareholdings

There are no cross-shareholdings.

## Capital structure

### Ordinary share capital

VZ Holding Ltd's nominal share capital amounts to CHF 2 million, divided into 8 million fully paid-up registered shares with a nominal value of CHF 0.25 each. Each registered share entitles its holder to one voting right.

### Authorised and conditional capital

There is no authorised capital.

The conditional share capital is limited to CHF 40'000, equal to 0.5% of the existing share capital. This sum is available to enable the members of the Board of Directors and employees of VZ Group at all levels of seniority to exercise the option rights they have acquired within the framework of the participation plan. For this purpose, VZ Group may issue a maximum of 160'000 fully paid-up registered shares with a nominal value of CHF 0.25 each. The preferential subscription rights of the shareholders are excluded for this conditional capital increase. By the end of 2018, no shares were issued out of the conditional share capital.

Acquisition of the registered shares by exercising option rights and the subsequent transfer of the registered shares is subjected to the transfer restrictions described in the section «Transfer restrictions» on page 21. The conditions for the issuance, including issue price, date of dividend rights, type of contribution and the participation plan are set by the Board of Directors. The shares may be issued at a price below the market price.

### Changes in capital

All changes in capital are attributable to share based management benefit programmes and the compensation in shares to the Board of Directors: 63'533 registered shares were bought by VZ Holding Ltd in 2018 (2017: 80'284), and 36'690 registered shares were sold to VZ employees in connection with a share based management benefit programme (2017: 50'190). 845 shares were allocated to the Board of Directors as its compensation for 2018 (2017: 925). VZ shares held by the company are accounted for in the balance sheet at a value of TCHF 24'555 (2017: TCHF 17'276). Further details are shown in the notes to the consolidated financial statements under «Share capital and reserves» (pages 117 and 118). For the year 2016, please refer to the 2016 annual report, page 20 (available online: [vzch.com/investors/financial-reports](http://vzch.com/investors/financial-reports)).

### Dividend payments

	2018	2017	2016
Dividends in % (annual profit VZ Group)	40%	40%	40%
Dividends in TCHF	38'786 <sup>1</sup>	34'519	33'376
Payment date	15.4.19	16.4.18	12.4.17

<sup>1</sup> The dividend payments are based on a dividend of CHF 4.90 per registered share proposed to the shareholders' meeting of 9 April 2019. No dividend will be paid on treasury shares. Therefore, the actual amount paid out is dependent on the number of treasury shares held by VZ Group on the payment. These shares are not eligible for dividends.

## Participation and profit-sharing certificates

There are no participation or profit-sharing certificates.

## Restrictions on transferability and nominee registration in the share register

### Transfer restrictions

38'280 registered shares are currently subject to lock-up agreements. Only shares related to the management benefit programme or to the Board of Directors' compensation are locked-up. During the year under report 11'446 shares were allocated based on the management benefit programme (2017: 11'078) and 845 shares were allocated to members of the Board of Directors as compensation (2017: 925).

The vesting period is three years for all shares in the management benefit programme. Allocations to members of the management take place at the end of February, while allocations to members of the Executive Board and the Board of Directors only take place in mid-April, after their remuneration has been approved by the Annual General Meeting. This is why the vesting period for management employees will expire in February 2019 respectively 2020 and 2021, while it will end in April 2019 respectively 2020 and 2021 for members of the Executive Board and the Board of Directors. Detailed information on the management benefit programme can be found in the notes to the consolidated financial statements under «Share-based payments» (page 81) and under «Share-based management benefit programme» (pages 122 and 123).

### Locked-up shares as of 31.12.2018

	until 24.2.19 Management		until 12.4.19 EB/BoD		until 23.2.20 Management		until 6.4.20 EB/BoD		until 21.2.21 Management		until 6.4.21 EB/BoD		Total	
	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Members of the Board of Directors	0	0.00	1'009	0.01	0	0.00	925	0.01	0	0.00	845	0.01	2'779	0.03
Members of the Executive Board	238	0.00	3'758	0.05	228	0.00	2'772	0.03	81	0.00	2'906	0.04	9'983	0.12
Management	8'059	0.10	922	0.01	7'485	0.10	593	0.01	8'043	0.10	416	0.00	25'518	0.32
<b>Total</b>	<b>8'297</b>	<b>0.10</b>	<b>5'689</b>	<b>0.07</b>	<b>7'713</b>	<b>0.10</b>	<b>4'290</b>	<b>0.05</b>	<b>8'124</b>	<b>0.10</b>	<b>4'167</b>	<b>0.05</b>	<b>38'280</b>	<b>0.47</b>

### Share register

The Board of Directors keeps a share register, where the name and address of each holder and usufructuary of registered shares are registered. Entry in the share register is contingent upon proof that the share has been acquired for ownership or for the establishment of a usufruct. Vis-à-vis the company, shareholders or usufructuaries shall be deemed to be only those persons who are recorded in the share register. Upon request, a shareholder's voting rights shall be recorded in the share register, provided the shareholders explicitly acknowledge to have acquired the shares in their own name and for their own account.

### Exceptions

Apart from the provisions on nominee registrations, no exceptions to these transfer restrictions shall be granted.

### Nominees

The Board of Directors may register persons who hold shares in the name of third parties («nominees») up to 5 percent of the share capital stated in the Commercial Register as shareholders with voting rights. The Board of Directors may approve the entry of voting

rights exceeding 5 percent for nominees who disclose the name, address and number of shares of those persons for whose account they hold 0.5 percent or more of the share capital stated in the Commercial Register. This is a discretionary decision. With these nominees the Board of Directors concludes agreements regarding notification requirements, representation of the shares and exercise of the voting rights. If an entry in the share register was based on false information by the shareholder, the company may cancel the entry after a hearing with the nominee. The shareholder must be notified immediately after the cancellation. Each registered share entitles its holder to one vote at the shareholders' meetings. Changes to the statutory provisions and restrictions on the transferability of shares are subject to the approval of two thirds of the represented votes and the absolute majority of the represented nominal share values at the shareholders' meeting. The articles of association of VZ Holding Ltd do not stipulate any statutory privileges.

### **Convertible bonds and options**

The share based management benefit programme provides options for VZ Group's senior employees. These options have a maturity of six years, and may be redeemed only in exchange for shares (subscription ratio 1:1). In addition, the options are blocked for a period of three years and shall become worthless and lapse if their owners leave VZ Group within this period. As at 31 December 2018 VZ Holding Ltd held 84'599 VZ shares (31.12.2017: 57'756). These shares are designated for share allotments and options exercised by employees. By the end 2018 no shares were issued from the conditional capital. During the year under report 22'892 options were granted under this programme (2017: 22'156), whereof 22'000 were still outstanding on 31.12.2018. If these options are exercised, 22'000 registered shares will be transferred. During the year under report a total of 24'351 options were exercised (2017: 38'179). Options outstanding under all option plans totalled 112'903 as at 31 December 2018 (31.12.2017: 116'390). If all these options will be exercised, 112'903 options will be transferred.

Detailed information on the benefit programme including the exercise prices per option plan is disclosed in the notes to the consolidated financial statements (page 81, section «Share-based payments» and pages 122 and 123, section «Share-based management benefit programme»).

No convertible bonds were outstanding during the year under report.

## Board of Directors

### Authorities

VZ Holding Ltd's Board of Directors is responsible for the supervision and control of the Group's Executive Board. It appoints and monitors the members of the Group Executive Board and periodically revises and signs off the Group's strategy. The Board of Directors acts as a collective body, issues the necessary directives and guidelines, establishes the Group's organisation and risk policy and is briefed about the course of business on a regular basis. The Board of Directors has the necessary leadership skills, expertise and experience in the banking and financial sector. In addition to the main business areas, all areas including finance and accounting as well as risk management are competently represented.

### Members of the Board of Directors

Name, Year of birth, Nationality	Function	Elected (for the first time/until)	Professional background, other activities, vested interests and education
Fred Kindle, born 1959, CH	Chairman, Head of Compensation Committee	2002 to 2019	<p>Since the end of 2015, Fred Kindle has been a consultant for Clayton, Dubilier &amp; Rice, the investment firm based in New York and London, where he had been a partner from 2008 through 2015.</p> <p>Before joining CD&amp;R, Mr Kindle managed ABB Group worldwide (2004 to 2008). Prior to this, he served as CEO of Sulzer Ltd (2001 to 2004) and Sulzer Industries, Switzerland (1999 to 2001). From 1992 to 1998 he held a number of senior positions within Sulzer Group.</p> <p>He had previously worked with McKinsey, New York and Zurich, and Hilty Ltd, Liechtenstein, for several years. He graduated in engineering at the Swiss Federal Institute of Technology in Zurich, before completing an MBA at the Northwestern University, Evanston, USA.</p> <p>Fred Kindle is member of the Board of Directors of Stadler Rail Ltd (Bussnang) and Schneider-Electric (Rueil-Malmaison).</p> <p>As a non-executive and independent member of the Board of Directors, Fred Kindle has never been a member of the Executive Board of VZ Holding Ltd or any of its group companies. He has no material business relationships with the companies of VZ Group.</p>
Roland Iff, born 1961, CH	Vice-Chairman, Head of Risk & Audit Committee	2006 to 2019	<p>Roland Iff is the Chief Financial Officer of Geberit Group. He joined Geberit in 1993 as Head of Group Development. In mid 1995 he was given responsibility for group management accountancy. From 1997 onwards he ran the Group Treasury. Roland Iff has been Chief Financial Officer since 2005. Before joining Geberit, he spent six years working for Mead Corporation in Zurich, Milan (IT) and Dayton (USA).</p> <p>He graduated in business administration at the University of St. Gallen (lic. oec. HSG), majoring in finance and accountancy.</p> <p>As a non-executive and independent member of the Board of Directors, Roland Iff has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>

(continuation)

Name, Year of birth, Nationality	Function	Elected (for the first time/until)	Professional background, other activities, vested interests and education
Dr. Albrecht Langhart, born 1961, CH	Member of the Risk & Audit Committee	2000 to 2019	<p>Dr. Albrecht Langhart is a partner of Blum &amp; Grob Rechtsanwälte Ltd in Zurich (2005 to 2008 BLUM Rechtsanwälte). Prior to this he was an associate and partner with various commercial law firms in Zurich (1989 to 2005). Since 2000 he has served as an arbitrator at the VSV Verband Schweizerische Vermögensverwalter (Association of Swiss Asset Managers). He studied at the University of Zurich (lic. iur. 1986, Dr. iur. 1993) and at the Queen Mary and Westfield College of the University of London (Master of Laws, LL.M. European Law, 1993). He was called to the bar of the Canton of Zurich in 1988.</p> <p>Albrecht Langhart serves on the Board of Directors of WABAG Wasser-technik Ltd (Winterthur).</p> <p>Albrecht Langhart has been a member of the Board of Directors of several VZ Group companies since 1996. As a non-executive and independent member of the Board of Directors, Albrecht Langhart has never been a member of the Executive Board of VZ Holding Ltd or any of its group companies. He advises VZ Group in legal matters in his capacity as a partner of Blum &amp; Grob Rechtsanwälte Ltd. Apart from this he does not maintain any material business relationships with the companies of VZ Group.</p>
Roland Ledergerber, born 1961, CH	Member of Compensation Committee	2014 to 2019	<p>Roland Ledergerber has worked for St. Galler Kantonalbank since 1998. He became a member of the Group Management in 2002 and has been responsible for the private and corporate client business since then. In 2008 he assumed the position of President of the Executive Board. Prior to joining the Kantonalbank he had worked for UBS Ltd for twelve years, where he held various positions in the fields of controlling, corporate and institutional banking Europe as well as corporate customers in Switzerland and abroad. He graduated in business administration at the University of St. Gallen (lic. oec. HSG).</p> <p>Within the framework of his activities at St. Galler Kantonalbank Roland Ledergerber member of the Board of Directors of the Swiss Bankers Association (Swiss Banking), Basel and the Association of Swiss Cantonal Banks, Basel. Roland Ledergerber also chairs the St. Galler Kantonalbank Cultural Foundation, Zurich.</p> <p>As a non-executive and independent member of the Board of Directors, Roland Ledergerber has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>
Olivier de Perregaux, born 1965, CH	Member of the Risk & Audit Committee	2014 to 2019	<p>Olivier de Perregaux has worked for the LGT Group in Liechtenstein since 1999, since 2001 as CFO and member of the Group Executive Committee and since 2006 as a member of the Senior Management Board of the LGT Group. Prior to this he worked for Zurich Financial Services and for McKinsey &amp; Co. in Switzerland and abroad. Olivier de Perregaux graduated in business administration at the University of St. Gallen (lic. oec. HSG).</p> <p>As a non-executive and independent member of the Board of Directors, Olivier de Perregaux has never been a member of the Executive Board of VZ Holding Ltd or of any of its group companies. He does not maintain any material business relationships with the companies of VZ Group.</p>

### **Other activities and vested interests**

For detailed information please refer to «Members of the Board of Directors» on pages 23 and 24. For reasons of materiality, other activities are listed only if the entity in question is subject to a regular audit.

### **Restriction of additional activities**

Members of the Board of Directors may exercise functions on senior management level or as members of boards of other legal entities only if these activities are compatible with their workloads and responsibilities at VZ Group. Additional remunerated functions are subject to the approval of the Board of Directors.

The number of additional functions is limited to 20, of which no more than 5 at listed companies, 15 at non-listed other legal entities as well as 5 non-remunerated functions, which must be listed in a Swiss commercial register or a comparable register in another country. Functions at companies that are part of the same group are deemed to constitute one function. Excluded from this restriction are functions that a member of the Board of Directors exercises at the direction of VZ Group.

### **Compensation, shareholdings and loans**

For additional information please refer to the «Compensation Report» on page 40 to 51.

### **Election and term of office**

Election

The shareholders' meeting elects all members of the Board of Directors individually for a term of one year. The period of office ends upon the conclusion of the next ordinary shareholders' meeting. The year for the first election is specified in the section «Members of the Board of Directors» (pages 23 and 24). There are no restrictions on how often a member of the Board of Directors may be re-elected.

The rules within the articles of association of VZ Holding Ltd governing the appointment of the chairman, the members of the Compensation Committee and the independent voting proxy correspond to the regulatory requirements. If the Chairman of the Board of Directors does not exercise his office until the end of the period of office, the Board of Directors shall elect a replacement from amongst its members for the period until the next shareholders' meeting.

### **Internal organisation**

Tasks

The Board of Directors consists of five or more members. Decisions are taken by the entire Board of Directors, based on the majority of the votes present. If a vote results in a tie, the Chairman takes the final decision. In the case of routine matters and in urgent cases, the Board may accept or reject applications in writing, unless at least one member requests a meeting. For support and in order to ease its own workload, the Board of Directors has established a Risk & Audit Committee as well as a Compensation Committee. These committees prepare decisions relating to their topics, and also submit motions to the Board of Directors. In view of the number of directors, no further committees are required. The entire Board of Directors decides whether or not a committee is necessary. Members of the Board of Directors abstain from voting on matters that relate to their own interests or the interests of natural persons or legal entities with which they are associated.

## Board of Directors

Pursuant to the Swiss Code of Obligations, VZ Holding Ltd's articles of association and internal organisational regulations, the Board of Directors has the following duties:

- the ultimate management of the company and the issue of the necessary directives
- the establishment of the organisation
- the structuring of the accounting system, financial controls and financial planning
- the appointment and dismissal of the persons entrusted with the management and representation of the company
- the ultimate supervision of the persons entrusted with the management especially in connection with compliance with applicable law, articles of association, regulations and directives
- the drawing up of the company's annual report, approving of the compensation report as well as the preparation of the shareholders' meetings and the execution of its resolutions
- the notification of the responsible legal authorities in the event of over-indebtedness
- the passing of resolutions relating to the subsequent payment of capital contributions on shares which have not been fully paid-up
- the passing of resolutions relating to the confirmation of capital increases and the ensuing amendments to the articles of association
- the examination of the professional qualifications of the approved expert auditors or state-supervised audit companies in those cases where such auditors or audit companies are legally required
- the assignment and monitoring of the internal audit, the assignment of the statutory audit company and the evaluation of their reports
- the decision on the formation, liquidation or acquisition of subsidiaries, branches and offices in new regional markets, the participation in companies, the establishing of joint-ventures, foundations as well as the decision on other projects of strategic importance
- the decision on acquisition or disposition of property
- the appointment and dismissal of the vice-chairman of the Board of Directors
- the appointment of the chairman of the Board for the time remaining until the next shareholder's meeting if the chairman elected resigns from his function
- the appointment of the members of committees, e.g. the Risk & Audit Committee (the members of the Compensation Committee are elected by the shareholders' meeting)
- the establishment of and amendments to the organisation's regulations
- the appointment and dismissal of the Chief Executive Officer, the deputy as well as the members of the Executive Board, of the Chief Risk Officers (CRO) and of the Head Legal & Compliance
- the establishment of and amendments to the Risk & Audit Committee's regulations
- the decision on motions brought forward by the Risk & Audit Committee
- the issue of the regulations for the compensation committee respecting the guidelines of the articles of association and the requirements set by the Ordinance against Excessive Compensation in Listed Stock Companies «VegüV»
- the approval of the Executive Board's conceptual framework for group-wide risk management that defines the risk policy, the risk tolerance and the risk limits that result from it in all major risk categories and the definition of the responsibility for the regulation, establishment and monitoring of an effective risk management as well as the control of the overall risks



- the annual written assessment of its own performance (achievement and approach)
- the definition of the job profiles for the members of the Board of Directors including their periodic assessment
- the definition, approval and periodic assessment of the job profiles for the members of the Executive Board, the CRO and the head of the internal audit
- the responsibility for an effective internal control system consisting of at least two bodies (profit-oriented business units and supervisory bodies that are independent from them) including the supervision of the control system

#### Chairman

The Chairman of the Board of Directors has the following duties:

- the chairmanship of the Board as a whole
- the preparation of the agenda for the shareholders' meetings and the meetings of the Board of Directors
- the convening of the meetings of the Board of Directors
- the chairing of the shareholders' meetings and the meetings of the Board of Directors
- the monitoring of the implementation of the decisions taken by the Board of Directors
- the keeping of the share register, whereas the administration of the register may be delegated to a suitable service provider
- the keeping of the company's records, documents and minutes
- the internal and external representation of the Board
- the shaping of VZ Group's strategy, communication and culture

#### Vice-Chairman

The Board of Directors elects each year, at the first meeting following the shareholders' meeting, a Vice-Chairman from amongst its own ranks. If the Chairman of the Board of Directors is unavailable, the Vice-Chairman assumes his duties and responsibilities.

#### Risk & Audit Committee

The Risk & Audit Committee comprises at least two independent, qualified members of the Board of Directors. The Chairman of the Board of Directors is not eligible for this committee. The principal responsibilities of the Risk & Audit Committee are to oversee the risk management, the accounting and the financial reporting as well as the compliance with the applicable legal and regulatory rules and regulations. It reviews the organisation and the effectiveness of the internal controls, namely the risk control, the compliance and the internal audit, as well as the processes of the financial reporting. In addition, it oversees and coordinates the work of the external auditors, including the collaboration with the internal auditors. In the case of important decisions, the Risk & Audit Committee presents the Board of Directors with its recommendations. The Risk & Audit Committee reports to the Board of Directors twice per annum within the context of board meetings.

#### Compensation Committee

The Compensation Committee consists of at least two independent members of the Board of Directors who are elected at the shareholders' meeting individually for a period of office of one year. The Compensation Committee helps the Board of Directors to develop and monitor the remuneration system as well as to determine the compensation of the members of the Board of Directors and the members of the Executive Board of VZ Group.

The Compensation Committee checks adherence to the remuneration rules defined by the shareholders' meeting. In the event of discrepancies, the Compensation Committee initiates and monitors corrective actions. The Compensation Committee draws up a compensation report that it presents to the Board of Directors for approval. In the event of important decisions associated with the remuneration of members of the Board of Directors and of the Executive Board, the committee submits proposals to the Board of Directors. The Compensation Committee reports to the Board of Directors twice per annum within the framework of the meetings of the Board of Directors.

#### Mode of operation

##### *Policies*

The Board of Directors meets as often as business requires, at least four times per year as a rule. These meetings usually take half a day. The Risk & Audit Committee meets at least twice a year, the Compensation Committee normally also meets twice a year. These meetings usually take 2 to 4 hours.

##### *Mode of operation of the Risk & Audit Committee*

The Head of the Risk & Audit Committee invites members of the Executive Board to attend the committee meetings in order to report on their departments. Usually, the CFO participates in these committee meetings. In the year under report, the CFO took part in all meetings held by the Risk & Audit Committee.

##### *Mode of operation of the Compensation Committee*

The Head of the Compensation Committee may invite other persons to the meetings of the committee. Such additional attendees do not have any voting rights.

##### *Meetings held in 2018*

Board of Directors: four ordinary meetings (as in 2017) plus a strategy workshop with the members of the Executive Board

Risk & Audit Committee: four meetings (2017: three meetings)

Compensation Committee: two meetings (as in 2017)

In the year under report all members took part in all meetings. Neither the Board of Directors as a whole nor the two committees have invited any external consultants in the year under report.

#### **Supervision of the Executive Board**

The Chief Executive Officer regularly reports to the Board of Directors about the performance of the Group companies and the fulfilment of his tasks. He may inform all of the members of the board in writing or orally on the occasion of a board meeting. The Chief Executive Officer also provides reports on the company's financial situation to the other members of the board on a quarterly basis, and unsolicited points out unforeseen financial liabilities.

Irrespective of the regular reporting, the Chief Executive Officer also immediately informs the members of the board in writing about events that might have a substantial impact on the course of business, such as in particular:

- planned changes in the Executive Board,
- events that might significantly impair the financial situation of Group companies (e.g. impending lawsuits, an adverse balance or insolvency) or
- significant irregularities in the management of the company.

#### Risk management system

An impeccable reputation among clients, investors, creditors, government agencies, business partners and the public is VZ Group's most valuable asset. Managing risks effectively contributes greatly to this reputation. Therefore, the correct assessment, the careful and conscious handling and the systematic monitoring of all important risks is crucial for the company's long-term success. No business activity is free of risks, and financial institutions active in the balance sheet business are exposed to particularly high risks. VZ Group avoids activities with an unfavourable risk/return ratio and enters a business field only if it has the human and technical resources to adequately control the risks.

In the area of banking and bank-related services, VZ Group is exposed to default, credit, market, liquidity and refinancing risks. In the field of insurance services, it is exposed to underwriting risks, and in general to operational, regulatory and legal risks as well as to reputation risks. The overall responsibility for the risk management lies with VZ Holding's Board of Directors. It defines the risk policy, issues organisational, business and competence regulations and draws up a risk analysis every year. The Risk Office is responsible for the ongoing risk control, including the independent control and monitoring of all risks, while the Legal & Compliance office is responsible for risks of legal and regulatory nature. The Risk Office draws up a bi-annual risk report, Legal & Compliance an annual activity report to the attention of the Risk & Audit Committee. Additional information is set out in the notes to the consolidated accounts (pages 85 to 96, section «Risk management»).

#### Independent supervisory bodies

The independent supervisory bodies are part of the internal control system and monitor the risks as well as legal, regulatory and internal compliance. The supervisory bodies assume the risk control and compliance functions. In order to fulfill their duties, they have unlimited rights of access, information and insight, as well as direct access to the Board of Directors.

#### Internal audit

The internal auditors are elected by VZ Holding's Board of Directors and report to the Risk & Audit Committee. They carry out all tasks assigned by Risk & Audit Committee independently. The Board of Directors mandated Grant Thornton Ltd, Zurich as internal auditors, and for the German subsidiaries Warth & Klein Grant Thornton Ltd, Dusseldorf. For VZ InsurancePool Ltd the Board of Directors mandated Balmer-Etienne Ltd, Lucerne, which is accredited as auditors for insurance companies by the Swiss Financial market Supervisory Authority (FINMA), as an additional internal auditor.

The internal audit carries out a comprehensive risk assessment at least once a year. It takes into account external developments (e.g. economic environment, regulatory changes) as well as internal factors (e.g. important projects, business focus). Based on this risk assessment as well as other needs, the internal audit defines each year an audit plan with specific

objectives that are in line with the risk-oriented multi-annual plan. The audit fields are based primarily upon the statutory requirements for audit obligations. In addition, the Board of Directors may define further fields.

When planning the audits, the internal audit shall coordinate with the external audit and shall make its audit results available to the external audit. The Risk & Audit Committee shall approve the annual audit plan at the latest on the occasion of the first ordinary meeting of the Risk & Audit Committee of the current year. The internal audit shall inform the Risk & Audit Committee, the Executive Board and the managers of the audited units in writing about the results of its audits. At the start of the year the internal audit shall furthermore draw up a report on its activities in the past year. In order to enable the internal audit to perform its duties, it has unlimited rights of access, information and insight.

#### Right to request information

Insofar as this is necessary for the fulfilment of their duties, each member of the Board of Directors may inspect the financial records and documents, and the Chairman of the Board may demand information from the Chief Executive Officer about the performance of the business and about individual transactions. If the Chairman or the Chief Executive Officer rejects a request for information, for a hearing or an inspection, then this shall be decided by the Board of Directors.

## Executive Board

### Authorities

The Executive Board of VZ Group is responsible for the management of the entire company. Together with the Board of Directors it is responsible for developing the business strategy of VZ Group. It discusses the focus of the subsidiary companies and of the business units in terms of strategy, corporate culture and business philosophy as well as interdepartmental projects of a personnel, risk policy or market profile nature. The Executive Board has the necessary leadership skills, expertise and experience in the banking and financial sector required for the approval of VZ Group's business operation.

### Chief Executive Officer

Within the framework of the law and the articles of association as well as the rules of organisation, the Chief Executive Officer is responsible for the management and representation of the company externally. His responsibilities include in particular:

- Organising, managing and monitoring the business activities at the operative level
- Submitting proposals to the Board of Directors concerning the appointment of members of the Executive Board, the deputy of the Executive Board, of the Chief Risk Officer (CRO) and Head Legal & Compliance, of directors and of holders of general commercial power of attorney
- Organising, managing and monitoring the accounting system, the financial controls and the financial reporting as well as managing the balance sheet structure and liquidity
- Preparing the passing of resolutions by the Board of Directors
- Designing and maintaining appropriate internal processes, an adequate management information system, an internal control system and an appropriate technology infrastructure
- Develop a conceptual framework for group-wide risk management to be adopted by the Board of Directors.

### Members of the Executive Board

Name, Year of birth, Nationality	Function	Professional background	Member of the Executive Board since
Matthias Reinhart, born 1960, CH	Chief Executive Officer	Lic. oec. HSG Associate and Engagement Manager at McKinsey & Co. in Zurich and Chicago Entry: 1992	1992
Giulio Vitarelli, born 1971, CH	Managing Director VZ VermögensZentrum (Switzerland)	Master of law (lic. iur.) Entry: 1998	2002
Thomas Schönbucher, born 1973, CH	Deputy Managing Director VZ VermögensZentrum (Switzerland)	Master of business administration (lic. oec. HSG) Entry: 2000	2012
Tom Friess, born 1968, CH	Managing Director VZ VermögensZentrum (Germany)	Degree in business administration (HWV) Bank Vontobel, Swiss Invest (Argentina) Entry: 1996	2000

## Members of the Executive Board (continuation)

Name, Year of birth, Nationality	Function	Professional background	Member of the Executive Board since
Marc Weber, born 1976, CH	Managing Director VZ Depository Bank	MAS in Bank Management Vaudoise Versicherungen Entry: 1999	2008
Manuel Rüttsche, born 1984, CH	Managing Director Asset Management	MSc in Finance, London Business School Raiffeisenbank Entry: 2004	2018
Lorenz Heim, born 1968, CH	Managing Director HypothekenZentrum	Schweizerischer Bankverein Entry: 1994	1999
Urs Feldmann, born 1967, CH	Managing Director business unit Pension Plans and Insurance Consulting for corporate clients as well as People Development & Recruiting	Degree in business administration (HWV) CSS Versicherung, Elvia Versicherung Entry: 1996	2000
Rafael Pfaffen, born 1977, CH	Chief Financial Officer	MAS in Bank Management SwissRe CFO VZ Depository Bank Ltd since 2007 Entry: 2007	2017

### Other activities and vested interests

- Matthias Reinhart is a member of the Foundation Board of the Swiss Epilepsy Foundation. He also serves on the Board of Directors of the following companies: Familie Ernst Basler Ltd (Zollikon), Reinhart Holding Ltd (Winterthur) and Aktiengesellschaft für die Neue Zürcher Zeitung (Zurich).
- Lorenz Heim is a member of the Foundation Board of HIG Immobilien-Anlagestiftung (Zurich) and Vice President of HIG Asset Management (Zurich).

The members of the Group Executive Board do not hold any public or political office or a permanent management or advisory function for important Swiss or foreign interest groups. For reasons of materiality, other activities are listed only if the entity in question is subject to a regular audit.

### Restriction of additional activities

Members of the Executive Board may exercise functions on senior management level or as members of boards of other legal entities only if these activities are compatible with their workloads and responsibilities at VZ Group. Additional remunerated functions are subject to the approval of the Board of Directors.

The number of remunerated functions is limited to 6, thereof 1 at a listed company and 5 at other non-listed legal entities as well as 6 non-remunerated functions in entities which must be listed in a Swiss commercial register or a comparable register in another country. Functions at companies that are part of the same group are deemed to constitute one function. Excluded from this restriction are functions that members of the Executive Board exercise at the direction of VZ Group.

### Changes during the reporting period

Since 1 September 2018, Peter Stocker is no longer a member of VZ Group's Executive Board and is now concentrating on servicing VZ Group's institutional clients. The Board of Directors has appointed Manuel Rüttsche as his successor.

### Management contracts

There are no management contracts.

### Compensation, shareholdings and loans

For additional information please refer to the «Compensation Report» on page 40 to 51.

## Shareholders' participation rights

### Restrictions on voting rights and representation

Share register

The Board of Directors keeps a share register, where the name and address of each holder and usufructuary of registered shares are registered. Each share listed in the share register entitles the holder to one vote. Entry in the share register is contingent upon proof that the share has been acquired for ownership or for the establishment of a usufruct. Vis-à-vis the company, shareholders or usufructuaries shall be deemed to be only those persons who are recorded in the share register. Further information about the registration conditions is set out in the section «Restrictions on transferability and nominee registration in the share register» on page 21.

If an entry in the share register was based on false information by the shareholder, the company may cancel the entry after a hearing with the nominee. The shareholder must be notified immediately after the cancellation.

Changes to the statutory provisions and restrictions on the transferability of shares are subject to the approval of two thirds of the represented votes and the absolute majority of the represented nominal share values at the shareholders' meeting. Shareholders may only exercise their voting rights if they are recorded as shareholders with voting rights in the share register of VZ Holding Ltd. The treasury stock of VZ Holding Ltd does not confer voting rights.

No exemptions to these provisions were granted during the year under report.

The rules pertaining to participation at the shareholders' meeting correspond to the rules of the Swiss Code of Obligations.

### Quorums pursuant to the articles of association

The conversion of registered shares into bearer shares as well as the liquidation and dissolution of the company are only possible with the consent of the shareholders' meeting. The minimum quorum required is two thirds of the represented voting rights as well as the absolute majority of the nominal share value represented.

All other arrangements correspond to the provisions of Art. 703 and 704 of the Swiss Code of Obligations.

Annual general meeting

### **Convening shareholders' meetings**

VZ Group's procedures to convene the shareholders' meetings are in line with the provisions of the Swiss Code of Obligations.

### **Agenda**

The agenda for the shareholders' meetings is set by the Board of Directors. Shareholders who individually or collectively represent shares with an aggregated value of at least 1% of the total share capital may submit proposals to be put on the agenda. The request must be submitted to the Board of Directors in writing, including a proof of the number of shares represented. Such a request must be received by the Board of Directors at least 45 days prior to the shareholders' meeting.

### **Entry in the share register**

The Board of Directors sets the deadline for entries in the share register and notifies the shareholders in the invitation to the annual general meeting. As a rule, the share register closes three days prior to the annual general meeting.

### **Instructions issued to the independent voting rights proxy**

Shareholders may issue powers of attorney and instructions to the independent voting rights proxy up to 48 hours before the start of the shareholders' meeting, including electronically. Specific instructions may be issued in respect of motions that are listed in the invitation to the shareholders' meeting, as well as general instructions on unannounced motions or new agenda items. The Board of Directors defines the rules that are to be used for the electronic issue of powers of attorney and instructions.

## **Changes of control and defence measures**

### **Mandatory public take-over offer**

The articles of association do not include any opting-out or opting-up clauses to suspend or limit the duty to make a public take-over offer based on Article 125 paragraph 3 and 4 (opting-out) and Article 135 para 1 (opting-up) of the Financial Market Infrastructure Act.

### **Changes of control**

No change-of-control clauses are included in the articles of association, in agreements or plans in favour of members of the Board of Directors, the Executive Board and/or the management.



## Auditors

### Duration of the mandate and term of office of the head auditor

The shareholders' meeting held on 10 April 2018 elected PricewaterhouseCoopers Ltd (PwC) as external auditor of VZ Holding and VZ Group for the 2018 financial year. PwC has held this mandate since 2012, and Rolf Birrer has been the head auditor since then. Subject to re-election, he shall hand over this mandate to Yousuf Khan after the General Meeting on 9 April 2019, because the legally prescribed rotation is due.

### Auditing fee

PwC charged revision fees of TCHF 776 (2017: TCHF 682) for the financial and regulatory review in the financial year 2018.

### Additional fees

In 2018, PwC charged additional fees amounting to TCHF 23 (2017: TCHF 57). The additional fees relate to support for the implementation of regulatory requirements and for project-based consulting. The additional fees correspond to 2.9 % of the audit fees. The additional services by the auditors are compatible with their auditing services, as there is no conflict of interests.

### Information instruments exercised by external auditors

The Risk & Audit Committee oversees the external auditing. It acknowledges the audit objectives and the audit plan, where these are not defined by supervisory authorities. It peruses the auditors' findings, recommendations and reports and monitors the scope and organisation of the audit activities. Finally, it assesses the quality of the audit, the compensation and the conditions of the auditors. In order to assess the work of the external auditors, the Risk & Audit Committee holds meetings with the CEO, the CFO, the responsible head auditor and the senior auditor. Evaluation criteria include qualifications, expertise, independence and achievements of the various audit teams as well as of the head auditor. The Risk & Audit Committee identifies potential conflicts of interests with the auditors, especially where they take on additional consultancy mandates.

The external auditors review the annual statements with the members of the committee and attend additional meetings upon request. The members of the Risk & Audit Committee discuss their feedback on the auditors' work as well as on the cooperation with the head auditor in charge on a regular basis.

During the year under report, the external auditors attended two meetings of the Risk & Audit Committee. The Head of the Committee briefs the members of the Board of Directors on the auditing activities on a regular basis.

## Information policy

### Regular provision of information

VZ Group has a policy of communicating with shareholders, the capital market and the public in a transparent, comprehensive and regular manner. Regular reporting to shareholders includes publication of the annual and half-yearly reports, shareholder letters, media and analysts' conferences as well as the shareholders' meeting. In addition, VZ Group takes part in conferences for financial analysts and investors on a regular basis.

Important dates are listed at the beginning of this report under «Information for shareholders».

### Permanent source of information

VZ Group publishes information simultaneously for all market participants and interested parties on [www.vzch.com](http://www.vzch.com). Under the section «Alert registration» ([www.vermoegenszentrum.ch/investor-relations/investor-relations.html](http://www.vermoegenszentrum.ch/investor-relations/investor-relations.html)), interested parties can put their names on a mailing list if they want to be kept informed automatically about news.

### Contact addresses

The main contact addresses are listed at the beginning of this report under «Information for shareholders».

### Relevant changes since balance sheet date

Between 31 December 2018 and 1 March 2019 there were no changes that would have to be disclosed.