



LETTER TO SHAREHOLDERS

Comments on VZ Group's
annual results 2017

VZ Holding Ltd
Beethovenstrasse 24
8002 Zurich

VZ GROUP: 2017 FINANCIAL YEAR

Dear Shareholders,

Operating revenues
+10 %

Relative to 2016, our revenues grew 10.3 %, specifically from CHF 235.9 million to CHF 260.2 million. As expected, growth levelled off slightly during the second half of the year. Net profit grew less strongly at 3.2 % to reach CHF 86.8 million in the year under report. This was due in part to the additional provision of CHF 5.2 million related to uncertainties regarding value added tax, which we reported in November. These additional costs had a one-off impact on net profit.

Margins remain
under pressure ...

Pressure on margins has been high for a number of years. Mandates with all-in fees are becoming increasingly popular in asset management, which leads to lower transaction revenues. Negative interest is an additional burden on revenues. Together, these factors further reduced the margin on assets under management in the year under report.

... while the client
base keeps growing

Trust in our services is directly expressed by the rise in the volume of assets under management. These assets grew from CHF 18.4 billion to reach CHF 21.8 billion, whereby net new money accounted for CHF 2.3 billion. All-in fees make the management of assets predictable and transparent. This is attractive and helps us to gain even more clients. We are confident that the inflow of new clients will offset pressure on margins in the longer term. At the same time, we have recorded more activity on the consultancy side. In particular, the discussion about the financial health of the Swiss pension system has unsettled many clients, increasing their demand for sound advice.

Sound balance sheet
and higher dividend

Relative to the start of the year, the balance sheet total rose 11.0 % to CHF 2.7 billion. The equity and core capital ratios are significantly above the industry average at 17.0 % and 30.4 %, respectively. The Board of Directors proposes a dividend of CHF 4.35 per share (2016: CHF 4.20) to the Shareholders' Meeting, in line with its policy of distributing around 40 % of profits to shareholders.

Outlook

The broader client base and higher volumes indicate that revenues and net profit will continue to grow in the current year, in spite of sinking margins – provided that financial markets develop in a stable manner. We are expecting costs to keep rising in step with revenues, despite the fact that we will continue to invest in digitalisation in order to extend our competitive advantage.

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

Zurich, 1 March 2018



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chief Executive Officer

« THE ADVANTAGE OF OUR ORGANIC GROWTH IS THAT WE DO NOT HAVE TO TAKE ANY MAJOR RISKS. »

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

Mr Reinhart, VZ Group is celebrating its 25th anniversary this year. What has VZ achieved in a quarter of a century?

VZ has successfully positioned itself in the financial service industry. Our unique business model and attractive services for our target clients give us a competitive edge, and we are now an established alternative to traditional banks. Over the first 25 years we have grown from a small start-up into a leading force. And the market is so big that I see a lot of potential for the next 25 years.

« Over 25 years we have grown from a small start-up into a leading force in the market. »

How do you assess the 2017 financial year?

Essentially positive. The strong influx of new clients combined with an upbeat equity market sentiment, which is reflected in the behaviour of our clients, are very encouraging. Challenging factors are the trend towards lower prices throughout the financial sector, and negative interest rates, which affect our results. When it comes to capital expenditure, depreciation and amortisation, our projects to promote digitalisation are noticeable. In overall terms, we continued to make great strides last year, in particular in terms of client numbers and the quantity of services they use. The advantage is that we grow organically and do not have to take any major risks.

Can you explain the fact that you are attracting so many clients, while others are losing clients?

The inflow is indeed remarkable. Our consultancy services focus in particular on the topics of retirement, pension schemes and estates. Here, demographic developments will continue to support demand for many years to come. The ongoing debate about the future of pension schemes is positive for VZ in the sense that many unsettled clients turn to us with their questions.

When it comes to asset management, our expanded and enhanced range of services is paying off. And lastly, more and more clients are discovering the VZ financial portal as their digital cockpit.

Growth slowed in the second half of the year. What is this slowdown due to?

On a half-year basis, revenues actually did grow more slowly, namely by 8.5 % in the second half of the year, compared with 12.3 % in the first. The slowdown is mainly due to the fact that the basis for comparison was higher in the second half of the year. We notified our investors of this base effect six months ago. When it comes to other key performance indicators, growth was actually stronger; in particular the number of asset management clients and the net inflow of new money.

Net new money increased 14.7 %. What is your take on this development?

There has been a shift in sentiment relative to 2015 and 2016. The economic outlook has improved significantly, and the more favourable stockmarket sentiment is reflected in our own figures, including the increase in net new money. For the long term, however, growth in our consultancy capacity is more important than short-term swings and fluctuations.

Revenues and costs were expected to develop in step as usual. What was different in 2017?

Firstly, we set aside an additional 5.2 million Swiss francs in conjunction with disputed liabilities regarding value added tax. Secondly, VZ Depository Bank Germany became operational in July. In 2017, these upfront costs were not offset by any revenues. And thirdly, there was a disproportionately sharp rise in depreciation.

Why this sharp rise in depreciation?

We are investing a great deal in the digitalisation of our services. For this reason, our capital expenditure is higher than in the past. At the same time, we are in the process of upgrading and extending our infrastructure. Therefore, this expenditure will also grow disproportionately in the current year.



What benefits will digitalisation bring for VZ, and what will it do for clients?

We bundle all services in such a way that our clients can manage their entire finances conveniently online. The fact that more clients are using our financial portal helps to increase the number of services they obtain through us. The higher the number of services, the more efficient and cost-effective it becomes for them. From our perspective, this correlation is widening our revenue base, which enables us to offer these services at an even lower price. That is why this goal is at the heart of our digital strategy. In addition, we continuously train specialists who show our clients the benefits of our management services and familiarise them with the digital tools.

«The more services clients obtain through us, the more efficient and cost-effective it becomes for them.»

VZ was an early adopter of rule-based asset management. Has this been successful?

Yes: As early as 2010, we launched the first rule-based mandates with ETF. Since then, it has been confirmed that they work as anticipated. More and more investors value the fact that these mandates are so transparent and reliable. Today, over half of all new clients choose one of these models, and this proportion is likely to continue growing.

What do you do for your corporate clients?

In recent years we have fine-tuned our range of services. SMEs use our insurance management and pension scheme solution in particular. Entrepreneurs plan their succession with us, and implement the planning with our support. It is especially valuable for us that the owners, the managers as well as the employees of these companies have a high affinity to VZ. Their positive experiences contribute to the fact that they are also interested in our services for private individuals. We see substantial growth opportunities here. And we have been

making better use of these opportunities for some time now.

How is the business developing in Germany?

Many things are different in Germany. This is true for the pension system and laws, as well as for client behaviour. Our target segment is similar in size to that in Switzerland, but much more fragmented. Even if our business model cannot be transferred 1:1, we have successfully established ourselves in the market. Growth is likely to accelerate following the launch of the depository bank: Our low prices give us a competitive advantage, which also helps us to reach new clients.

What goals do you have for the next 25 years?

That's a very long time! A major goal is to stay independent and to remain one of the pioneers in the industry, which create tangible added value for their target clients. More precise forecasts over such a long period of time would be pure speculation. When it comes to the next five years, it can be said with some certainty that our client base will continue to grow, and that we will further extend our coverage with an even denser network of branch offices. In a few months' time, we will open our first branch office in the Italian speaking part of Switzerland, and an additional country market could be added within the next five years. As in the past, we continue to focus on organic growth, in order to keep quality high and risks low.

KEY FIGURES

Income statement

in CHF '000

	2017	2016
Operating revenues	260'235	235'865
Operating expenses	149'194	128'660
Operating profit (EBITDA)	111'041	107'205
Net profit¹	86'823	84'124

1 Including non-controlling interests.

Balance sheets

in CHF '000

	31.12.2017	31.12.2016
Total assets	2'703'475	2'434'598
Equity ¹	459'470	420'546
Net cash ²	366'001	389'595

1 Including non-controlling interests.

2 Cash & 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

	31.12.2017	31.12.2016
Equity ratio ¹	17.0 %	17.3 %
Common equity tier 1 capital ratio (CET1) ²	30.4 %	31.7 %
Total eligible capital ratio (T1 & T2) ²	30.4 %	31.7 %

1 Equity compared to the consolidated balance sheet total.

2 VZ Group applies the international standard approach for credit risks (SA-BIZ) for the first time. The previous year's figure has been adjusted accordingly.

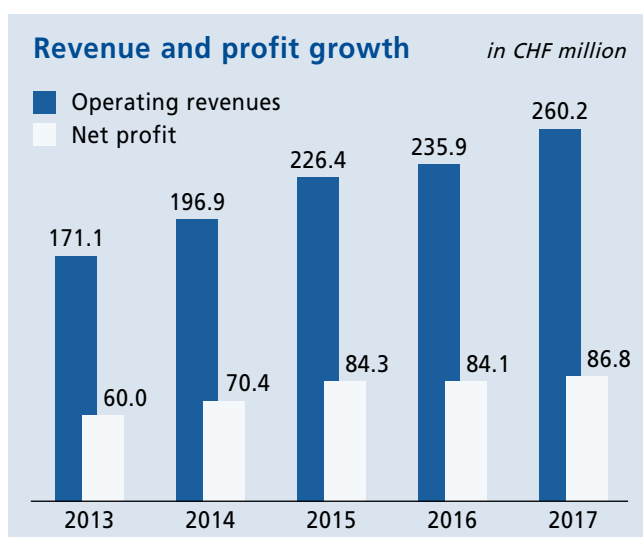
Assets under Management

in CHF million

	31.12.2017	31.12.2016
Assets under Management	21'775	18'415

Employees

	31.12.2017	31.12.2016
Full-time equivalents (FTE)	840.4	771.5



Where to order and download the annual report 2017

The annual report is printed in German. You are welcome to order it by phone: +41 44 207 27 27 or by email: ir@vzch.ch.

Our press release regarding the annual results as well as the annual report can be downloaded from our website in the PDF format: www.vzch.ch/reports (Investor Relations/financial reports).

The Letter to Shareholders is published in German, English and French. In the case of inconsistencies in the English or French translations, the German original shall prevail.