



LETTER TO SHAREHOLDERS

Comments on VZ Group's
annual results 2019

VZ Holding Ltd
Gotthardstrasse 6
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VZ GROUP: 2019 FINANCIAL YEAR

Dear Shareholder

Surprisingly robust economy

In 2019 the economy cooled down noticeably. Trade relations were subject to great strain and until the end of the year it remained uncertain whether a brexit agreement would be reached. Nonetheless, the feared recession did not materialise, and the global economy remained surprisingly robust. The financial markets anticipated the positive developments, and practically all asset classes increased in value over the past year.

6.2 percent higher operating revenues

As expected, the positive mood in the second half of the year was reflected in both operating revenues and profit. After a slow first half of the year, earnings rose by 6.2 percent to CHF 301.7 million over the year as a whole. The slower growth compared to the previous year is due to the fact that revenues from assets under management develop with a time lag. In addition, bank revenues remain under pressure. The trend towards passively managed portfolios and all-in management fees leads to lower trading and transaction revenues. After stagnating in the first half of the year, profit rose by 4.1 percent to CHF 102.3 million over the year as a whole.

5000 additional management clients

We have again advised a large number of new clients, and many of them have opted for one of our management services. With 5000 additional management clients, we achieved a new record. At the same time, the number of services used by our clients is steadily increasing. VZ Finanzportal, which enables clients to conveniently manage their assets online – including insurance policies, mortgages and much more – also contributes to this development. Net new money grew by 5.5 percent to CHF 2.7 billion in 2019.

Higher balance sheet total and dividend

The balance sheet total increased from CHF 3.1 to 4.1 billion in 2019. This is due to the growing number of clients and the higher cash holdings per client. Despite the growing balance sheet total, the core capital ratio is a solid 27.7 percent. The Board of Directors will propose to the annual general meeting an increase in the dividend from CHF 4.90 to CHF 5.10 per share. As in the previous years, some 40 percent of the profit will thereby be distributed to the shareholders. Over the next couple of years, the Board of Directors intends to gradually increase the payout ratio to up to 50 percent. In addition, the Board proposes a share split in the ratio of 1:5.

Outlook

Provided that the financial markets remain stable, revenues should continue to grow in the current year. Profit growth in particular is expected to improve because the tax burden will decrease again.

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

Zurich, 28 February 2020



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chief Executive Officer

«In 2019, we have created the conditions necessary for growth to pick up again.»

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

Mr Reinhart, are you satisfied with the 2019 financial year?

At first sight, the result is not satisfactory. However, we have created the conditions necessary for growth to pick up again: The quality of our consulting is unsurpassed, we have further developed our platform services, digitalised many processes – especially the interfaces to our clients – and made processes and systems more efficient. This will help us to manage the expected increase in demand.

«Financial consulting remains at the core of our business model.»

What makes you so confident that demand will continue to grow?

Demand for retirement planning is growing for demographic reasons alone. The uncertainty over the overdue reform of our pension system is an additional factor that increases complexity and generates demand for our advice.

Financial consulting is a relatively insignificant source of revenue ...

That is true: Around 90 percent of our revenues are generated from portfolio management, insurances, mortgages or pension services. However, practically all clients using these services have first sought our advice. That is why financial consulting remains at the core of our business model. The quality of our advice and our platform services is the basis for future growth.

Why is net new money not growing at a faster pace?

Growth was indeed moderate in the first half of the year. After that, it picked up again, and over the year as a whole, net new money increased from CHF 2.57 to 2.7 billion. This follows a typical pattern: experience shows that it takes 6 to 9 months after a sharp market slump for the recovery to be reflected in net new money. This pattern has been confirmed in 2019.

All revenue components developed positively – with the exception of banking revenues.

That is correct. Revenues generally grow in line with the number of clients. With regard to banking revenues, there are some negative factors: transaction and trading revenues have been declining for years because more and more clients are demanding passively managed mandates and all-in fees. Moreover, negative interest rates continue to put pressure on the interest business. For these reasons, the share of banking revenues has fallen from 26 to 19 percent since 2015. In 2019, bank revenues shrank by 5.6 percent, while the other revenues grew by 9.4 percent. This results in a 6.2 percent growth rate overall.

Profit grew by only 4.1 percent. Why is it lagging behind revenues?

Operating expenses rose in line with operating revenues, so our EBIT was 6.8 percent higher. The difference is mainly due to higher taxes. Thanks to the corporate tax reform in Switzerland, the tax burden will decrease in 2020.

The Swiss National Bank has adjusted its exemption threshold regime. What does this mean for VZ?

In our case, it is a major improvement: the amount on our SNB account which is exempt from negative interest payments has increased by around one billion francs. This will ease the burden on our interest margin business in the current year and also benefit our clients.

The balance sheet total has grown substantially. Is this a trend that is set to continue?

Yes, that is very likely. Firstly, the balance sheet grows with the number of clients, and secondly, our clients tend to hold more cash. Our goal is to keep the capital ratio high and the risks low. That gives our clients security, even if the balance sheet continues to grow.

How is the asset side of the balance sheet structured?

We make full use of the SNB's exemption threshold, which absorbs about 25 percent. Another 50 percent is invested in prime residential mortgages taken out by clients; the rest in Swiss franc bonds and short-term loans to public-sector entities and Swiss banks.



Four years ago you launched your financial portal. How many people are using it today?

Almost 29'000 clients use the financial portal regularly, 9000 of these even use it weekly. This number is growing continuously. It is a big task to show our clients how to use this tool effectively and how they will benefit most from it. This effort is worthwhile for us and for them: the more additional platform services they use, the more efficient and cost-effective it becomes for both sides.

«Revenues should continue to grow in 2020, and profit is expected to increase more than proportionately.»

Where do you see the greatest potential for your business?

Our strategic focus is on Swiss private clients over 50 who are planning their retirement. We have specialised in services for these clients. In the area of pension business, we are recording above-average growth, because we can offer very attractive solutions for the second and third pillars. The contribution of property and liability insurance for our clients is still relatively small, but it is growing strongly. And, of course, traditional portfolio management remains a key growth driver.

What are your ambitions for 2020?

The first priority is to expand our consulting capacity in order to meet the growing demand. At the same time, we will continue to invest in the ongoing development of our financial portal. The focus is on additional features that bring tangible benefits. In Germany, we are intensifying our marketing efforts and focus on building our brand recognition. Furthermore, we have set up a project organisation in England

that analyses the market and identifies market entry opportunities.

Shareholders are to receive a higher dividend. What are the reasons behind this decision?

The Board of Directors is proposing to increase the dividend from CHF 4.90 to CHF 5.10. This corresponds to the payout ratio of 40 percent, which we have been using as a yardstick to date. Over the next couple of years, the Board of Directors wants to gradually increase the share of net profit that is distributed to shareholders to up to 50 percent. The aim is to continue financing our growth from our own funds while offering our shareholders an even greater share of our success.

Last question: How do you assess developments in the current year?

Provided that the financial markets remain stable, revenues and profit should grow again in the 2020 financial year. We expect significantly more clients, which should be reflected in higher revenues and more net new money. Insurance premiums will also grow more than proportionately. The pressure on bank earnings, however, will remain high. Operating expenses and operating revenues are expected to grow in step, while depreciation and amortisation will stagnate and taxes will decrease. We therefore assume that profit will increase more than proportionately over the current year.

KEY FIGURES

Income statement

in CHF '000

	2019	2018
Operating revenues	301'718	284'188
Operating expenses	159'340	157'004
Operating profit (EBIT)	124'750	116'764
Net profit	102'305	98'246

Balance sheets

in CHF '000

	31.12.2019	31.12.2018
Total assets	4'056'231	3'087'945
Equity	549'774	512'266
Net cash	432'380	439'543

Equity key figures

	31.12.2019	31.12.2018
Equity ratio	13.6 %	16.6 %
Common equity tier 1 capital ratio (CET1)	27.7 %	30.1 %
Total eligible capital ratio (T1 & T2)	27.7 %	30.1 %

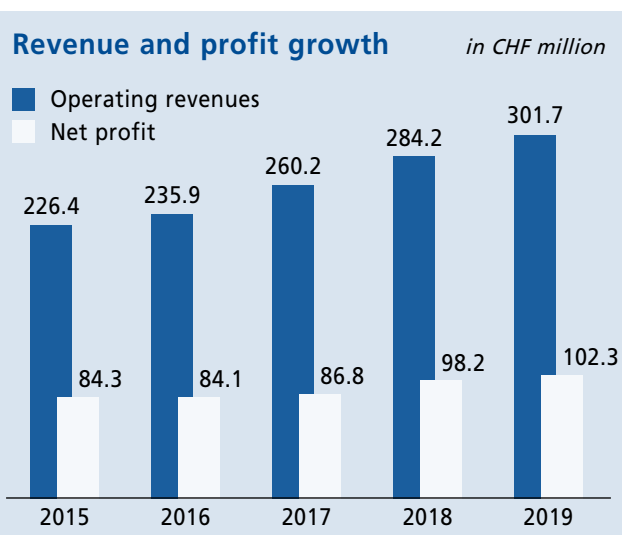
Assets under management

in CHF million

	31.12.2019	31.12.2018
Assets under management	27'627	23'056

Employees

	31.12.2019	31.12.2018
Full-time equivalents (FTE)	944.8	897.5



Alternative Performance Measures (APM)

To measure our performance, we use alternative performance measures that are not defined under International Financial Reporting Standards (IFRS). Details can be found on page 174 of the Annual Report 2019.

Where to order and download the annual report 2019

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.com.

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

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