



LETTER TO SHAREHOLDERS

Comments on VZ Group's
half-year results 2016

VZ Holding Ltd
Beethovenstrasse 24
8002 Zurich

VZ GROUP: FIRST HALF YEAR 2016

Dear Shareholders,

Uncertainty and geopolitical turmoil

Negative headlines prevailed in the first half-year, with the refugee crisis and Brexit as the primary concerns in Europe. Stock markets posted a very weak start to the year and prices only made a faltering recovery as interest rates fell again. As always, our clients responded to the uncertainty by taking a more hesitant approach.

Growth brought to temporary halt

Revenues grew 1.2 percent compared to the same period last year to CHF 113.8 million. There are two reasons for this restrained growth: firstly the basis for comparison is unusually high as the franc shock resulted in significant extra earnings in the first half of 2015. Secondly, revenue growth has slowed this year as the markets collapsed at the start of 2016, clients are being much more cautious and negative interest rates are impairing revenues. To further expand the business costs temporarily outgrew revenues at 8.0 percent and net profit was 5.8 percent down on the same period last year at CHF 40.4 million.

Increased balance sheet total

Many uncertain clients are holding cash instead of investing. As a result, the balance sheet has grown by 16.2 percent to CHF 2.3 billion since the start of the year. At the same time, equity capital increased to CHF 384 million. Equity capital ratios are clearly more solid than average for the sector.

Robust business model

The influx of new clients is unabated. Because we focus on offering a quantifiable added value, they still seek our expertise during times of uncertainty. In spite of negative stock market returns, assets under management grew during the first half-year to CHF 17'272 million. Net new money came to CHF 1005 million relative to CHF 1105 million during the same period last year. This decrease reflects clients' reluctance to enter into new commitments.

Next steps

In August, MeinFinanzportal will supersede our e-banking. The rationale behind the new portal is for our clients to consolidate all their money-related matters in a single place and conveniently manage them online. The preparations for setting up our bank in Germany next year, as announced previously, are well under way.

Outlook

We expect to return to our growth path in the second half-year. Provided that there are no further major distortions, we therefore anticipate a similar profit for the whole year as in 2015. Based on our robust business model and the steps we have initiated, we are confident that our business will continue to grow next year and that the growth will be reflected in the financial figures.

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

Zurich, 16 August 2016



Fred Kindle
Chairman of the Board of Directors



Matthias Reinhart
Chairman of the Executive Board

«TODAY WE CAN FULLY COVER ALL OUR CLIENTS' FINANCIAL NEEDS»

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

Mr Reinhart, compared to the prior year the result for the first half of 2016 seems mediocre.

That's true: last year external factors had an extremely positive impact on our half-year result, whereas this year they had an extremely negative effect. At the start of 2015, we benefited from a one-off effect caused by the Swiss franc shock, while in 2016 the markets had

«Our clients want to choose what they do themselves and what they discuss with an expert»

their worst start to the year in decades. That impacted assets under management and, as a result, volume-based revenues. Negative interest rates are also having an adverse effect. A significant share of our liquid assets is deposited with the SNB, as security is one of our top priorities. We are paying 0.75 percent interest on these assets, which burdened our interest result with CHF 1.6 million in the first half-year.

How does the overall result look discounting the external factors?

Our operation has continued to grow as in previous years and all the key indicators are positive: we have more clients, higher consulting fees and increased assets under management. Only the conversion of consulting into management clients has been more difficult. It is a temporary phenomenon that occurs when the markets are in upheaval. Clients tend to take longer before deciding to proceed with their plans when times are uncertain. Once the general situation improves, they will have less trouble committing to something.

So the negative market sentiment has mainly affected wealth management?

Yes, exactly. Per advisor there was 19 percent less net new money relative to the same period last year. That wasn't a surprise: we already noticed this trend in the second half of 2015 and we are familiar with this effect from similar market situations.

VZ Group has systematically broadened its services in recent years. Where are you today?

We are now able to cover our clients' financial needs in full: we are wealth managers and we offer our clients many opportunities to manage their securities themselves. VZ Depository Bank holds their cash and securities accounts and processes their payments. They can take out favourable mortgages from Hypotheken-Zentrum, and several foundations manage their mandatory and voluntary pension schemes (2nd and 3rd pillars). We have also been offering all the property and liability insurance required by a private household since mid-2015. In other words, we are now a one-stop-shop for financial services. All these services have one thing in common: they are transparent and a lot cheaper than what you can get elsewhere.

How can you undercut the competition that much?

There are essentially two explanations: for a start we have hardly any distribution costs as our services target our existing clientele. If we look at car insurance, for instance, that lets us save CHF 200 from every CHF 1000 of premium. Secondly, we designed our organisation on a blank canvas so to speak. Many providers have to operate generations of IT systems in parallel. Our organisation operates on a platform that is both significantly cheaper and more advanced.

How are you approaching the digital transformation?

More and more clients want to do as much as possible online, while many others want to have the choice between what they manage themselves online and what they discuss with an expert. We have developed our financial portal in response. *MeinFinanzportal* has replaced our e-banking and is a much more complete tool. It works as a personal cockpit from which you can maintain a comprehensive and real-time overview of your finances: cash and securities accounts, pension fund and pillar 3a, insurance and taxes, real estate and mortgages, will and testament. *MeinFinanzportal* enables you to do everything online and to securely store your documents.

Could VZ become my house bank?

We have made a major stride towards this objective. Clients call the bank they use to make their payments



You recently reorganised your corporate client business. Why?

We consolidated responsibility. Both the consulting and management services for corporate clients are now managed by one Executive Board member. This enables us to consolidate the acquisition, simplify the cooperation between different teams and better exploit cross-selling opportunities. At the same time it frees up resources for strategic tasks: the pension fund business is faced with far-reaching changes, and we are predestined to assume a leading role in that transformation.

their house bank. Since we started offering a complete payment service including credit cards, more and more clients use us to make their payments. Moreover, as payments are the linchpin of any financial need, they are naturally transferring other types of business to us as well.

«Payment services are central to all financial transactions. This is a major step forward for us»

Is that why you are starting a bank in Germany?

Until now our German clients have to obtain most of the services we provide here in Switzerland from third parties. Our medium-term objective is for these clients to enjoy the same benefits as we provide here. We expect VZ Depository Bank to be operational in Germany next year. From then we will be able to provide our German clients with a more rounded service.

The insurance pool has been in operation for a year. Are you pleased with the results?

Yes. If you look back, the figures are still modest. The volume is increasing over time but there is a lag before it is reflected in the financial figures. We started at zero in mid-2015. Based on the premium underwritten to date, we expect a positive contribution from 2017.

How do you assess the outlook for the second half-year and beyond?

The environment remains challenging. However, our fundamental business is mainly demography-driven, and our target group continues to grow. We view the slight fall in earnings over the past six months as a dip in growth rather than as a trend.

What are your priorities going forward?

We are focusing on our online strategy: *Mein-Finanzportal* goes live in August and we will continue to develop it further. We will also use our rule-based investment solutions to get new groups of clients on board. Our website is evolving from a content tool to an online service, and while we will continue to expand our branch network, we will also offer online access to all our services.

KEY FIGURES

Income statement

in CHF '000

	1H 2016	2H 2015	1H 2015
Operating revenues	113'758	114'006	112'376
Operating expenses	63'002	61'517	58'326
Operating profit (EBITDA)	50'756	52'489	54'050
Net profit¹	40'424	41'431	42'891

1 Including non-controlling interests.

Balance sheets

in CHF '000

	30.06.2016	31.12.2015	30.06.2015
Total assets	2'332'821	2'007'704	1'968'222
Equity ¹	383'644	377'172	337'525
Net cash ²	333'476	344'118	285'873

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

	30.06.2016	31.12.2015	30.06.2015
Equity ratio ¹	16.5%	18.8%	17.2%
Common equity tier 1 capital ratio (CET1)	26.5%	28.7%	26.8%
Total eligible capital ratio (T1 & T2)	26.5%	28.7%	26.8%

1 Equity compared to the consolidated balance sheet total.

Funds under management

in CHF million

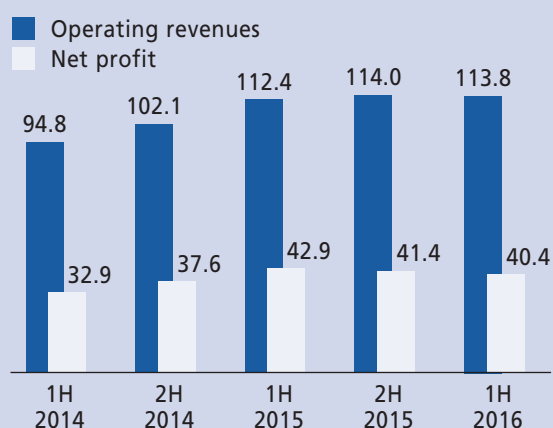
	30.06.2016	31.12.2015	30.06.2015
Assets under Management	17'272	16'495	15'403

Employees

	30.06.2016	31.12.2015	30.06.2015
Number of employees	830	812	773
Full-time equivalents (FTE)	718.3	702.9	666.5

Revenues and profit

in CHF million



Download reports and press releases

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

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